

Reconstruction
of Economic
Science

RECONSTRUCTION OF ECONOMIC SCIENCE

*A Plea for Planning in the Fundaments of the
Science of Economics*

BY

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*TRUTH generally lies in the co-ordination
of antagonistic opinions.*—Herbert Spencer.

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DEDICATED TO
Professor J. K. MEHTA
Economist, Philosopher and Gentleman
TO WHOM I OWE MY INTEREST IN
ECONOMIC THEORY

PREFACE

This book arose originally out of a paper which I had read to the members of the *Economic Convezione*, University of Allahabad, several years ago. It aroused a certain amount of critical reaction, mostly from Professor J. K. Mehta, from which I and this book both benefited. Nevertheless, I travelled alone for a large part of the way, and the responsibility for the shortcomings remains wholly mine.

The book has been out of print for more than seven years by now, as pressure of work did not allow me time to revise it. The demand for the book has, however, continued, which has compelled my publishers to issue a reprint.

Opportunity has only been taken to remove major blemishes mostly of printing, language and arrangement.

The University,
Allahabad.
Feb. 25, 1957.

A. N. AGARWALA

CONTENTS

CHAPTER	PAGE
<i>Preface</i>	v
I Evolution of Economic Science	1
II Definition of Economic Science	13
III The Subject-Matter of Economic Science	21
IV The Concepts of Science and Art	39
V The Positive Science of Economics	47
VI The Normative Science of Economics	54
VII The Applied Science of Economics	66
VIII The Main Objection to Normative and Applied Economics	71
IX Social Character of Economic Science	77
X The Scope of Economic Science	88
XI The Problem of Economic Terminology	92
XII The Problem of Economic Ideology	101

EVOLUTION OF ECONOMIC SCIENCE

The misery and squalor that surrounds us, the injurious luxury of some wealthy families, the terrible uncertainty overshadowing many families of the poor—these are evils too plain to be ignored. By the knowledge that our science seeks it is possible that they may be restrained. Out of the darkness to light! To search for this light is the task, to find it perhaps the prize, which the 'dismal science' of Political Economy offers to those who face its discipline.—*A. C. Pigou.*

1. MUCH WATER HAS FLOWED DOWN THE GANGES since Hutcheson¹, Hume² and Mandeville³ showed the way and Adam Smith unfurled the banner of Economics in England. Since then decades have rolled on while economists have kept themselves busy discussing their differences, agreeing in their disagreement and disagreeing in their agreement; sometimes enveloping their world in the gloom of pessimism, at others showering on it the glow of sunny optimism; sometimes receiving tributes and praises, but, more often

¹ Francis Hutcheson was Adam Smith's teacher at Glasgow and exercised a great influence on Adam Smith and his economic views.

² David Hume (1711-1776), himself of mercantilist persuasion, exercised a deep influence on Adam Smith in his general philosophical outlook.

³ Mandeville, a forerunner of Adam Smith, upheld the view that the multiplicity and increase in the variety of wants made individuals find "their private interest in labouring for the good of others and united together to compose one body."

than not, bearing the brunt of half-true or vague criticisms. It would be wrong to presume that these differences and controversies relate to advanced theorization; they, indeed, go down to the very fundamental postulates. The more the infant science of Economics has been approaching adolescence, the more have been the problems regarding the fundamentals of the subject with which its students have been faced.

2. The annals of the history of economic thought are full of difference of opinion, dissensions and controversies, a seemingly haphazard or erratic growth. But a keener insight reveals that the science of Economics has taken the course of a well-marked cycle in its development. The thought-system of a particular period becomes in course of time a thesis, which calls forth, in due course, its anti-thesis. The compromise of thesis and anti-thesis eventually establishes a new synthesis. This synthesis again becomes a thesis, and another course of the cycle is put into motion. Economic science has passed through two such cycles and is now passing through the course of a third cycle. We are, it appears, living in confusion. The problems before us are grave and, as said above, descend to the very fundamentals of our science in their underlying relationship and contents. The need of a synthesis is, indeed, acute.

3. Modern Economics took its birth in the year 1776 when Adam Smith (1723-1790), known as the

Father of Modern Economics, published his celebrated book *An Enquiry into the Nature and Causes of the Wealth of Nations*, shortly known as the *Wealth of Nations*. He had the privileged position of an inventor, which was supreme and unchallenged. But after some time, differences and controversies began to appear. Interventionists began to attach a measure of urgency to the need of intervention of the state in economic affairs, in contrast to the *laissez faire* philosophy; and nationalists began to emphasize the element of relativity in economic doctrines and to propose that national situations should determine economic ideology and policies, which was in contradiction to the universal character of economic principles. Socialists, more destructive in their assault, began to attack private property itself which was the basis of the institutional framework of a society that was studied by Economics. The voices of Sismondi⁴, List⁵, Saint-Simon⁶ and Proudhon⁷ were acutely critical and usefully suggestive

⁴ Jean Charles de Sismondi (1773-1842) gave a "catalogue of sufferings and miseries resulting from free competition" and was a pioneer in championing the cause of the under-privileged.

⁵ Friedrich List (1789-1846) published his *National System of Political Economy* in 1841, which aimed at shattering "Smith's gospel of free trade," and championed nationalism in Economics.

⁶ Count Henri de Saint-Simon (1760-1825) was a Utopian Socialist and emphasised the principle of association.

⁷ Pierre Joseph Proudhon (1809-1865) was a French Socialist who was exponent of the view that all property was theft.

of the ways in which Economics needed reconstruction according to socialist ideology.

It was given to John Stuart Mill (1806-1873) to save Economics from this confusion and chaos. He fused together all the different opinions and schools sufficiently well to be able to produce a synthesis which overcame confusion and controversies, at any rate for the time being. His fame was supreme and his influence profound in his own times, and though later generations of economists have shorn him of much of his glory, his effectiveness and influence in his own time have never been doubted. His magnum opus, *Principles of Political Economy*, was published in 1848 and wielded great influence.

5. But this peaceful atmosphere of unanimity over a large area of economic science, did not continue for long. The Historical School appeared in Germany and launched an assault on deductive methodology. Roscher⁸, Hildebrand⁹ and Knies¹⁰ were strongly inductive in their assertion and advocated fresh generalizations from historical data that should be laboriously

⁸ Wilhelm Roscher (1817-1894) was the founder of the German Historical School and rejected the classical method of abstract generalisation from general premises.

⁹ Bruno Hildebrand (1812-1878) disbelieved in the universal character of economic laws and advocated the use of historical method.

¹⁰ Karl Knies (1821-1898) was the most logical exponent of the historical method.

collected by economists on a large scale. They raised their voice against the excessive abstract and deductive character of Classicism. State socialists insisted upon and urged for increasing the functions of the State. Marx¹¹, the Father of Scientific Socialism, published his monumental work *Das Kapital* (1867) in which he skilfully combined History, Economics and Politics. He put forward a new theory of economic data; and showed that Capitalism based on private property was about to vanish. Its shortcomings and contradictions were paving the way for Socialism. It has been rightly observed that "the exaggeration, the extreme class bias and the dogmatic assertion of the Commercial Economics made the Marxian theory not only possible but, as a matter of psychology, inevitable."¹² To the apparent rescue of Classical Economics luckily came the utilitarian theorists. Menger¹³ in Austria, Leon Walras¹⁴ in France and Jevons¹⁵ in England and later

¹¹ Karl Marx (1818-1883) was the Father of Scientific Socialism and *Das Kapital* was his most important work.

¹² Fetter, *Price Economics versus Welfare Economics* in *American Economic Review*, Vol. 10, 1927, p. 484.

¹³ Karl Menger (1840-1921), leader of Austrian School, opposed historical method and gave a subjective theory of value.

¹⁴ Leon Walras (1834-1910) was a French economist whose *Pure Economics* (1874) appeared shortly after the work of Jevons but who had developed utility mechanics independently by himself.

¹⁵ William Stanley Jevons (1835-1882) maintained that "value depends entirely upon utility."

J. B. Clark¹⁸ in the United States of America, developed the mechanics of utility and refuted the criticisms of socialists and Marxists. But they also tended to weaken the Classical Economics inasmuch as they put their mechanics of utility against the cost concept of the classicists. Such developments once again created confusion.

6. The need was felt for a person who could effect compromise and produce a synthesis. Alfred Marshall (1842-1924) did exactly this. His most influential work, *Principles of Economics*, appeared in 1890. He collected all the dissentient voices and fused them into an agreed body of thought. He acquired the same privileged position which Mill had attained in his own times. But, a few years after his death in 1924, the peace was again disturbed. The cycle of the development of economic science began anew its third course. Strong critics of Marshallian Economics, known as Neo-Classicians, made their appearance. Socialists, institutionalists, inductivists, and others started advancing their own theories and criticizing Marshall. The situation rapidly went out of the hands of the defenders of Marshallian Economics.

7. It was only a decade and a half ago that Professor Higgs wrote (in *Wirtschafts Theorie der Gegenwart*, Vienna, 1927) that Marshall is at present held in such

¹⁸ John Bates Clark (1874-1938), a distinguished American economist, whose name is associated with marginal productivity analysis.

high esteem as was Mill in the days of his greatest influence. He will continue to influence British economists for a long time to come so much so that they will refuse to look at the world except through Marshall's spectacles."¹⁷ This prophecy of Professor Higgs did not, however, come true. Compare it with the sad note sounded by Professor A. C. Pigou,¹⁸ the successor of Marshall at Cambridge, from the Presidential Chair of the Royal Economic Society of London, a dozen years later. "The situation today," said he, "has nothing in the least resembling the Marshallian rule. There are, indeed, writers with enthusiastic disciples; but they have no less enthusiastic critics. While Marshall was a centre of unity, of acquiescence, of quiescence, they are rather centres of disturbance. To the novice, this is a sore trial; he is plunged into controversy on fundamental matters too early; before he has learnt to swim, he is tossed to a turbulent sea. But for those mature and for Economics itself, the clash of conflicting opinions breaking down dogmatic slumber may evoke life. Out of the turmoil something new and valuable may grow. A period of confusion; then a second Marshall and new synthesis, a synthesis, if

¹⁷ Quoted by Brij Narain, *Tendencies in Recent Economic Thought*, pp. 60-61.

¹⁸ Pigou was born in 1877, occupied the chair at Cambridge when it was vacated by Alfred Marshall, and is now Emeritus Professor at Cambridge University. He is known as a Welfare Economist.

one may date a prophecy, much nearer to that of first Marshall than many now suppose. Then a second period of confusion; a debunking of the second Marshall; and so in a progressive, if irregular, advance towards clearer understanding."¹⁰

8. In the year 1932, Professor Lionel Robbins of the London School of Economics disturbed the beehive of busy economists by publishing his epoch-making book, *An Essay on the Nature and Significance of Economic Science*. Professor Robbins can be said to have shifted the cart of Economics to the conservative classical track. This was a great setback to the schools of thought which had begun to look down upon the orthodox classicism as a decaying school and were trying to emancipate the economic science from the grips of the emaciated neo-classicism. It also disturbed not a few new neo-classicists as it was, on the one hand, a hark back to the past and, on the other hand, a deviation from classicism on the point of the abandonment of the money measure. It led economists, in general, to pause and take bearings of their position. Such great has been the impression of this book that most of the modern speculation on the fundamentals of Economics becomes, in some form or the other, a critical evaluation of Robbins's views.

¹⁰ A. C. Pigou, PRESIDENTIAL ADDRESS in the *Economic Journal*, Vol. XLIX (1939), p. 220.

9. It is, indeed, 'a sore trial' to have to understand the fundamental principles as preached by the schools of various shades of opinions and to discern the solid substratum of truth in each of them. But it would be wrong to imagine that the existing confusion is an unhealthy or irrelevant development. It is, on the contrary, an index of the healthy and lively progress that economic science is making. It shows that modern economists, as supporters or critics of neo-classicism, have been thinking feverishly, originally and independently. There seems to be some sort of confusion at present but it is natural. There is apparently a condition of chaos now, but it is logical. A fog has enveloped us, but it is healthy. These are the travails of new synthesis for which we might well wait and perhaps not for very long. In the meanwhile, we might make an endeavour to seek light in the midst of the darkness that envelops us and search for the truth in the clashes of opposing viewpoints each of which has some element of truth.

10. From this state, World War II seems to have given to some of the economists a sort of redemption. The war had an enormous influence on almost every aspect of life; and it was only natural that so many grave and important economic problems cropping up in such a large measure and demanding constructive attention of economists, should influence the course of the economic science in a somewhat

decided manner. The theoretical discussion relating to economic fundamentals, which used to take place frequently in pre-war period mainly for the sake of discussion or at best for bringing preciseness of expression and thought, was greatly discouraged. Again, the sticklers to the light-bearing dictum, that economists ought merely to establish connection between causes and effects and should neither point out an ideal nor suggest remedies, were found to be the false guides, with few faithful followers. Economists were called upon, in different countries of the world, to deliver themselves on urgent and pressing problem arising in practical life in those tumultuous and anxious days, and they played a big role in the prosecution of the war, which would be remembered with gratitude by the coming generations. The economic aspect of the modern warfare is perhaps more important than its sordid political aspect, if Economics and Politics can be set apart in such water-tight compartments; and it is self-evident that the military efficiency of a nation depends upon her economic resources and on the manner in which it can solve her economic problems. World War II, as such, witnessed a very great activity on the part of economists, in practically every country of the world, in the fields of ideal-fixation and remedy-suggestion; and there is no doubt that the tools of Economics were created so as to be of service in these spheres of the everyday world. This line of

progress was not of an *ad hoc* nature that might stop after the cease-fire order, having fulfilled the mission assigned to it, but it opened up new scope for similar activities in a world hungry for measures calculated to promote the welfare of the masses; and, more than that, it gave an attitude of mind and a habit of work somewhat wider in sweep than the pure positivist could ever have. Conditions are more favourable today than ever before for giving to Economics the shape of a social science making direct and notable contribution to the promotion of social welfare. In all probability it would continue and would ultimately give to Economics the shape of social science making a direct and enormous contribution to the social welfare in a positive and active manner. If the threads of discussion regarding the fundamentals of the economic science are taken up where they had been left in 1939 or thereabouts, and the work done in the past and view-points held and adumbrated by economists are discussed afresh in the light of the experience gained during war and post-war ideologies and aspirations, perhaps there would be strong grounds for the development of economic science in its normative and applied aspects.

11. It is interesting to note that this brief survey of the evolution of economic science during the last 180 years shows some turning points in the evolution of economic science. They occurred in 1776 when

Adam Smith's *Wealth of Nations* was published in 1848, when J. S. Mill's *Principles of Political Economy* appeared in 1890, when Alfred Marshall's *Principles of Economics* saw the light of the day, and in 1932 when Lionel Robbins's *Nature and Significance* was released. The time-intervals between these dates and till 1957 are of 72 years, 42 years, 42 years and 25 years. Though the year 1932 did not represent a synthesis as did the the earlier years, inasmuch as it gave a new turn to the whole science, shall we expect something to happen during the next decade and a half?

CHAPTER II

DEFINITIONS OF ECONOMICS

For the purpose of defining economics, the correct procedure would appear to be to start from the ordinary meaning of the verb to economize, that is, to use resources wisely in the achievement of *given* ends. In so far as the ends are viewed as given, as data, then all activity is economic.—*Frank Knight*.

1. Economic science is nearly 180 years of age.¹ During this period, economists have brought a mass of material to test and study, which has been subjected to keen analysis and careful generalization; and we have today a better knowledge of human behaviour in economic aspect than ever before.

2. But one thing might appear to be rather surprising to an outsider or a novice. Economics has been studied, developed and extended by some of the best brains of almost every generation for nearly two centuries and yet economists are not unanimous, and have, in fact, never fully agreed among themselves, about the precise subject-matter and province of economic science—what it is they have been talking about all these years. They have been very anxious and seriously concerned on this question, but the

¹ Economists differ regarding the origin of Economics. The physiocratic school, the mercantilist school and Adam Smith, each has been regarded as the originator of Economics. See Peck, *Economic Thought and Its Institutional Background*.

attempted solutions have generally failed to be lastingly satisfactory. Even today, they are not quite agreed on this point. This is disturbing to the minds of economists, and might even seem ridiculous to a man in the street. But serious students of every subject know that the framing of a more or less final definition of a branch of knowledge and the fixation of its boundary with some confidence come quite late in the history of its evolution, when through the efforts of its students, often extending over a long duration, all the problems that can possibly and properly be tackled under it, become definite and clear.² As such, if economists have not yet been able to give a definition of *Economics* such that all, or a majority of them, would accept it as correct, it is not a thing of which they have to be ashamed.

3. The definitions of Economics are, indeed, numerous. Every economist, big or small, has given his own definition. These definitions can, however, be grouped historically into three broad classes :

- (1) Early Classical Definitions ;
- (2) Later Classical³ Definitions ; and

² See J. N. Keynes, *Scope and Method*, pp. 39-40 ; also Robbins, *Nature and Significance*.

³ I have deliberately used the terms 'early classical' and 'later classical' instead of 'classical' and 'Neo-classical' respectively for want of consensus of opinion among economists regarding the writers who could thus be branded and also for want of this classification to exactly coincide with the definitions as given above.

(3) Robbinsian Definition.⁴

4. Early classical economists defined Economics in a simple and straightforward way. According to them, Economics was the science of wealth; and studied how wealth is produced, exchanged and distributed. J. B. Say called Economics "the science which treats of wealth"; and Walker defined it as "that body of knowledge which relates to wealth."

5. This definition of Economics had several virtues. It was at once simple and easy, direct and unambiguous. It was, again, rigorous and exact; and it led to the application, on a wide scale, of the deductive method which has proved so much productive of highly useful and valuable generalizations.

6. Early classicists wanted to develop Economics as a *positive science*, as the later was, in their view, the highest form of knowledge. Such a science is definite and certain in its nature, and universal and unchangeable in its application. In order to make Economics universally true, they began to draw abstract generalizations from a few definite fundamental traits of human nature. The process of simplifying the premises was carried to the extreme, and the entire study was based on the imaginary concept of an 'economic man' who is far removed from the actual human being

⁴ Other types of definitions have not been discussed here but have been considered later.

of everyday life. While trying to vest Economics with universal applicability, they fell into a grave error for which they were vehemently criticized later. The desire to make Economics an exact science urged them to search some form of measurement of human motives and feelings, for a science becomes exact through measurement. This anxiety on the score of the measurability of economic data led them to the measuring-rod of money. What could not be measured by money, fell outside the scope of Economics ; and what could be measured by money, within it. The need of definiteness led to the adoption of the money measurement, while that of universality, to economic man. Economics in their hands became a purely material science of wealth, which was based on the behaviour of an imaginary being having fictitious characteristics, and was limited by the money measure.

7. Such a science carried a pernicious philosophical and social message. It could hardly be approved by social reformers. Ruskin, Carlyle and William Morris raised their voices against this science, and criticised it as being extremely selfish and self-seeking. It appeared to them to oppose all the lofty qualities of selflessness and service to others. On the contrary, it inculcated love of money and made men selfish. They began to call it the "Dismal Science" and the "Gospel of Mammon."

8. No social science could make progress in the

teeth of such strong attack and disapproval. In fact, the criticism appeared to have some valid basis. Economists, therefore, began to take stock of their position, and felt that they should attempt to define their subject in a manner so as to avoid the criticism of the above type. This was the attitude of later classicists who gave a more satisfactory definition of this branch of knowledge than these economists. Of them Marshall is the most important.

9. These economists clearly and frankly confessed that their predecessors were mistaken to define Economics as a science of wealth. Wealth, they argued, is made for man; not man for wealth. Wealth is simply a means; the end is human welfare which is promoted by wealth. They also did not approve of the imaginary concept of "Economic Man", and declared that a study based on such a fictitious concept is bound to be erroneous. This is the view of Marshall, Cannan, Pigou, Pareto⁵ and Clark. According to them Economics is the study of the causes of material welfare or of human activities related to wealth. Robbins calls this definition 'materialist', though historically speaking, it was an attempt to emancipate Economics from the clutches of dire materialism in which early classicists had delivered this science.

⁵ Wilfredo Pareto was one of the founders of the Mathematical School of Economics along with Marshall, Edgeworth, Fisher and Cassel.

10. This definition, it would be realized, removed the emphasis which the early economists had put on wealth; and shifted it on to man or human welfare. Wealth was only a means of achieving material welfare which was the real subject-matter of Economics. This position met the criticism of the social reformers that economic science was a self-seeking science.

11. This definition of Economics was accepted extensively by economists till a quarter of a century ago. In the year 1932, however, Professor Lionel Robbins, as has already been said above, broke new ground in defining Economics in his immortal work, *The Nature and Significance of Economic Science*. The thesis put forward in this book was that the "materialist" definition of Economics given by later classical school has grave defects and should be dropped; instead, a "scarcity definition" of Economics given by Robbins should be accepted.

12. The defects which Professor Robbins pointed out in the Marshallian definition were mainly two: firstly, it narrowed down the scope of economic science. If it continues to be accepted, Economics would have to exclude certain matters which have come to be studied under it, which would be very awkward. Professor Robbins showed that the theory of wages governs cases where wages are not related to material welfare and which would not come under

Economics according to this definition. The economics of war, which was a matter of economic ill, would also not come under it. Secondly, the neo-classical definition of Economics was alleged to be classificatory. It said that Economics studies those activities of human beings which are related to wealth, as if some human activities could be exclusively set apart and labelled as economic ! The fact is that all human activities have an economic aspect.

13. Professor Robbins proceeded to formulate his own definition in the following manner. According to him, conditions of human existence exhibit four fundamental characteristics. The ends are various. The time and the means for achieving these ends are limited ; and are capable of alternative application. At the same time, the ends have different importance. Hence scarcity of means to satisfy ends of varying importance is an almost ubiquitous condition of human behaviour. We can, therefore, define Economics as the *science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.*

14. This definition of Economics has become widely popular during the last twenty-five years. It has also been criticized, sometimes quite vigorously. Professor Robbins has been criticized by followers of Marshall for extending the scope of Economics beyond the proper limit set by Marshall where economists

could tread on solid ground by putting the measuring-rod of money in operation. Other economists who want Economics to develop itself into normative and applied branches complain that Economics, as conceived by Robbins, becomes the study of the economic behaviour of human beings in a purposeless way, which does not actively help in the solution of practical problems. Institutional and inductive economists express their disagreement from it because of the abstract and deductive methodology which Robbins had emphasized.

CHAPTER III

THE SUBJECT-MATTER OF ECONOMIC SCIENCE

Whether we define the actual subject-matter of study in terms which cover all institutional settings (the "scarcity" definition) or limit it to those settings with which we are most preoccupied (the "exchange" definition) is not a matter about which sensible people will waste many precious moments.—*Lionel Robbins*.

1. The above definitions of Economics have been given to acquaint the reader with the basic data relative to the fundamentals of Economics, and we may now proceed to discuss the controversies that wrap economic thought in this sphere. All the fundamentals of Economics are enshrouded in controversies today. One can hardly take a further step in his studies in this field without encountering several opposing viewpoints. The main problems related to the fundamentals of economic science are :

- (1) What is the subject-matter of economic study ?
- (2) Is Economics a science, or art, or both ?
- (3) Is Economics a social study ?

2. We shall first take up the problem of the subject-matter of Economics. Early classical economists were of the view that wealth is the subject of our study. But this proposition is hardly tenable

today, as we have already seen. There is complete unanimity among modern economists that this is an erroneous description of our subject-matter. This viewpoint may, therefore, be rejected outright.

3. But the opinion of the later classical economists deserves to be taken seriously ; for, besides the fact that it is still acceptable to a large body of economists, it seems to have an essential substratum of truth. According to Marshall, their chief exponent, the subject-matter of our study is constituted by human activities most closely related to wealth. Economics is, on one side, a study of wealth and, on the other, and more important side, a part of the study of man.¹

4. This point of view of Marshall, which is representative of the later classical economists as a whole, differs, as we have already noticed, with the opinion of Professor Robbins on the subject. According to Robbins Economics studies human behaviour in relation to the disposal of scarce means having alternative uses.²

5. Robbins is one with Marshall in the emphasis, though implicitly, placed on the view that Economics is primarily a study of man ; and Robbins would

¹Marshall, *Principles*

²Robbins, *Op. Cit.* Robbins seems to have taken initiative from Wicksteed according to whom Economics is concerned with the problem of choice between alternative modes of attaining given ends. Wicksteed, *Commonsense*.

readily agree that it is only secondarily a study of the disposal of scarce means having alternative ends. But Robbins does not accept that Economics studies only certain human activities ; according to him, it studies only a *certain aspect of all* human activities. Robbins criticises Marshall for giving a dichotomy of human activities into economic and non-economic classes, which according to Robbins is fundamentally wrong. Again, Robbins maintains that Marshall's view that Economics is a study human activities in relation to wealth is very narrow ; and it should be widened by stating, as Robbins does, that Economics studies human behaviour in relation to the disposal of scarce means.

6. These, then, are the points of difference between Marshall's and Robbins's views. Marshall has had many able and forceful supporters, and Robbins also has a large body of followers ; and serious controversies have, in the past, taken place between the two camps. Nothing can, however, be gained by overlooking the view of one's rival in an attempt to prove that one's own ideas are correct. It is only by understanding the other's viewpoint and accepting it to the extent to which it seems to be correct that frontiers of knowledge can be really advanced. Let us, therefore, study these differences as dispassionately as possible.

7. *Economic Activities and Economic Aspect of Activities*. According to Marshall, Economics studies

only those activities of human beings which are most nearly related to wealth. This, according to Robbins, means that certain activities of human beings can be set aside as being economic, and others as being non-economic. Economics is said to study only economic activities. Marshall's conception is thus essentially classificatory in this respect.

8. Robbins criticizes this classificatory approach as being wholly wrong. He maintains that human activities cannot be classified into economic and non-economic in this manner. The fact of the matter is that all the human activities have an economic aspect. We might take some examples to understand these differences and to discuss which viewpoint is really correct.

9. Let us take the case of a *Sadhu* who passes his time in meditation, worship of God and philosophical contemplation. Since his activities are not mostly connected with wealth, they would not, according to Marshall, be studied under Economics. But, according to Robbins, his activities fall within the purview of Economics since he is faced with the problem of the disposal of scarce means like time, energy and concentration, which have alternative uses. Robbins would readily concede that activities of such a *Sadhu* are mainly religious, but he would assert that they have nevertheless an economic facet.

10. We now take an example of an activity which is mainly political. If one goes to cast a vote in favour of a person contesting for the municipal membership, it would be his political activity. Since its main object is not material, Marshall would place it outside the scope of Economics. But it has, according to Robbins, an economic aspect inasmuch as the voter is faced with the problem of disposing of scarce means having alternative uses. Vote is a scarce means, and its best disposal would be a problem before him. Again, time is a scarce means: the time spent by the voter in casting his vote can be spent in reading a book or in teaching his sister. He might have to spend a rupee as *tonga* hire to reach the polling booth, which he could have spent in purchasing a book. Hence this activity, which is mainly political, has an economic aspect.

11. Let us first be clear about the real opinion of Marshall on this point. Marshall is said to have stated that Economics is the study of those human activities which are related to wealth. Logically, therefore, Economics should study *all* the activities which are related to wealth. But this Marshall seems to reject as being his function or as being the function of Economics. He entrusts Economics with the study of those activities which are *most closely* connected with wealth. Only those human activities which are most nearly related to wealth are according to him

germane to the preoccupation of economists. He plainly stated that Economics "examines that *part* of individual and social action which is *most closely* connected with the attainment and with the use of the material requisites of well being."

12. Marshall may be loosely accused of excluding that part of human activities, which is remotely connected with wealth, from the scope of Economics, which seems to be the attitude of those who point to the classificatory character of his definition as a defect. But it remains to be examined if Marshall really stood for such an exclusion.

13. Marshall, like a true classical economist, was very particular that Economics should be an exact science. This exactness could be secured by the provision and application of quantitative measurement. Hence he gave a "material" definition of Economics and the measuring-rod of money. He clearly stated that "though it is true that money or 'general purchasing power' or 'command over material wealth' is the centre around which economic science clusters, this is so, not because money or material wealth is regarded as the main aim of human effort, nor even as affording the main subject-matter for the study of the economist, but because in the world of ours it is the one convenient means of measuring human motive on a large scale."³

³ Marshall, *Principles*, Bk. I, Ch. II.

Now, human activities can be related to wealth intimately or remotely ; and it requires a decision as to which of them can be usefully studied in Economics. Marshall himself thought the enquiry as to whether a particular problem falls within the scope of Economics or not "scholastic." "If the matter is important, let us take account of it as far as we can. If it is one as to which there exists divergent opinions, such as cannot be brought to the test of exact and well-ascertained knowledge : it is one on which the general machinery of economic analysis and reasoning cannot get any grip, then let us leave it aside in our purely economic studies the attempt to include it would lessen the certainty and exactness of our economic knowledge without any commensurate gain."⁴

14. It is evident from the above discussion that the reason why Marshall placed the human activities distantly related to wealth outside the scope of Economics, was one of expediency and usefulness. If his view is accepted, this part cannot at present be brought in the grip of the available tools of economic analysis. It is only by studying that part of human behaviour which is intimately related to wealth and can be easily measured by money that we can make

⁴ Marshall, *Principles*, pp. 27-28. Professor Pigou follows Marshall in defining Economics as the science of economic welfare which is that part of social welfare which can be brought, *directly or indirectly into relation with the measuring-rod of money.*"—Pigou, *Economics of Welfare*, p. 11.

Economics an exact and accurate science and get the clearest possible insight into the working of the economic phenomena. This must, therefore, be made the chief function of economic science, and one might usefully defer a dabbling in human behaviour only distantly related to 'material requisites of well-being' where economists cannot always find their feet on firm ground. Marshall would most probably be only too glad to support the study of the human behaviour distantly related to wealth if the tools of economists could deal with it satisfactorily.

15. Marshall was not opposed to the study all the human activities connected with wealth under Economics; but for reasons of expediency and in the interest of exactness of the science, he preferred to concentrate attention on those activities which are most closely connected with wealth, though he allowed the study of other activities also wherever possible and useful. This is not a classificatory approach.

16. It is also not quite right to say that Marshall wanted Economics to study all the aspects of human activities which are related to wealth. When it is said that Economics studies human activities related to wealth, it is implied that we would study only that aspect of such activities, which is relevant to us. That we must not study the irrelevant aspects of those activities which fall under Economics, goes without saying. It does not

need frequent repetition. How can we study the political aspect of human activities under Economics? This is such an elementary proposition that it is too much to say that Marshall was ignorant of it! When he said that Economics studies human activities mostly related to wealth, he meant that we should study their relevant aspects and not all their aspects. What Robbins says now must have always been at the back of Marshall's mind. It is true that he did not mention it expressly, but such a simple thing has to be taken for granted. So strong was his practical common sense that instead of stopping at this, Marshall went a step further, and laid down that of these activities which fall under Economics we should study primatily those which are most closely connected with wealth. The activities which are remotely or slightly so connected can be left out with advantage for some time till the tools of Economics become sufficiently sharp and refined to handle them. A premature attempt to study these problems might cause uncertainty and confusion.

17. Professor Robbins evidently thinks that Economics has reached adolescence and so it can now take a wide area in its scope. That explains his reason for giving a wide definition of Economics. This opinion is also correct to a certain extent because modern economists have devised some new analytical tools which have added to the capacity of economic science, and they have also introduced some new measures which can replace

money measure. But this has certainly not become a general rule in Economics ; and to a major extent, the old tools and the measuring-rod of money still serve their purpose. Economics does not appear to have reached a stage where they can be completely discarded. We have to retain the money measure in its place of pride, but we can usefully add to the stock of our tools and yard-stick wherever possible. How far it can be done, remains to be seen. In the meanwhile, nothing will be lost by exercising due caution in dealing with the new set of problems so that we do not sacrifice exactness and measureability.

18. *Wealth and Scarce Means.* The other controversy whether Economics studies human behaviour in relation to wealth or in relation to the disposal of scarce means having alternative uses, may now be taken up. We should first try to understand the difference between *wealth* and *scarce means*. The two are likely to be identified with one other, as they sometimes are. It is only too frequently said that whatever is scarce is wealth, whereas the fact is that whatever is exchangeable is wealth ; and what is scarce need not necessarily be exchangeable. Personal internal non-transferable goods like the skill of a musician and the dexterity of a runner are scarce but not exchangeable and, therefore, do not count as wealth. Some personal external goods are also non-transferable, like the business connections due to personal relationship.

Impersonal non-transferable goods like beautiful scenery and sunshine are, again, scarce but are not counted as wealth. All these goods, namely, personal internal non-transferable goods, personal external non-transferable goods and impersonal non-transferable goods, are excluded from the scope of Economics by Marshall. But they have been included in it by Robbins. Not only this : wherever the problem of choice or preference or economy is confronted with, one is, according to Robbins, in the domain of Economics. Robbins has thus widened the scope of economic science.

19. Let us follow the reasoning of Robbins which leads him to feel the necessity of enlarging the scope of Economics. He complains that economists have, in fact, been studying non-material things and forces which they profess to exclude from Economics according to "materialist" definition. He takes the example of the theory of wages, which is regarded by all the economists as an essential part of economic theory. It cannot be said to relate itself always and in all cases to material well-being. It seems at first sight that it must always have a material significance since wages are spent on objects promoting material welfare. But this may or may not be so. A labourer may purchase a loaf of bread with the money that he receives as wages ; or he may spend it on a cinema show. In the former case, it promotes his material welfare but not in the latter. Nor can it be said that the work for

which wages are given, is always conducive to material welfare. The cook who prepares dainty dishes for you does, indeed, promote your material welfare ; but the dancing girl who dances on the stage does not do so. Thus wages may be given for a non-material work and may be spent on a non-material object. Still their determination falls within the proper scope of Economics. The same theory of wages explains the determination of wages related or not related to material welfare. Again, war is destructive of material welfare and consequently would not come under economic study for it is not among the 'requisites of material well-being' ; but war economics is a part and parcel of economic theory. This anomalous position can be removed if we extend the scope of Economics to non-material goods and forces as well, limiting the scope only to the disposal of the scarce means having alternative ends.

20. This is the reasoning on which Robbins has based his thesis. As certain non-material phenomena are explained by economic theories, we might expand the scope of Economics so as to include them in it. The reasoning is certainly plausible ; but let us examine it more closely. Let us take the theory of wages. It does seem that in some isolated cases wages received may be not got for any work promoting material well-being and may not be spent in a way conducive to material welfare. But really speaking this is not

quite so because wages cannot be wholly separated from material welfare. When an opera dancer earns her wages she certainly refreshes you and makes you more efficient, which promotes your material well-being. Again, when she herself spends her wages, say, on a cinema show, her own efficiency is increased, which is conducive to her material well-being. It appears that Professor Robbins sees only direct relationship and not indirect relationship. That is taking half the view of the shield.

21. Again, it cannot be definitely stated that wars are always destructive of economic welfare. The immediate effect of a war is certainly destructive to the warring nations. But the ultimate effect is probably not necessarily so. The victorious nation might indemnify herself by charging fines, penalties and reparations and by taking over territories belonging to the vanquished nation. She might also elicit other political, economic, cultural and religious advantages. Had it not been so, wars would not have been fought so frequently and there would not have occurred so much scramble for colonies. If Japan was aggressive, it was because she wanted Philippines, Malaya, China, Singapore and Burma. If Germany waged a war, it was because she wanted control over a major part of Europe. Material welfare seems to be the real object

of wars. Apart from it, the statement that Economics is a study of human activities in relation to wealth or of material welfare, does not exclude an activity which reduces material welfare or even destroys it.

22. We do not, therefore, know how far the objection expressed by Professor Robbins can be considered to be real or fundamental. He does not take into account the fact that human behaviour can be *indirectly* related to material well-being. On the contrary, he states, not very convincingly perhaps, that it lies outside the scope of modern Economics as conceived by Marshall. Hence he gives his own definition which includes these cases as well. But it is perhaps a danger that his definition might include much too much. In his attempt to widen the scope covered by Economics correctly, Robbins might deprive it of its measuring-rod and thus make it indefinite, though his avowed object is to make it definite and certain.

23. Marshall defines Economics as follows: Economics "examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being." We might add to it the words, "directly or indirectly," if necessary, at the end. The two cases suggested by Professor Robbins, which prompt him to suggest a new definition of Economics, do seem to fall within the scope of Economics laid down by this definition.

24. *Real and Average Man.* It needs emphasis that Economics studies the real man. That Economics studies human beings and not animals or inanimate things, is a proposition which admits of no difference of opinion. But it is not each and every kind of human beings whose behaviour is studied by Economics. The human beings providing the subject-matter of our study are real human beings as we see them in our daily life, as they are really found to be, men actuated by motives of religion and patriotism, love and charity, pity and nobility and pleasure and sorrow, and not merely or only by the selfish motive of wealth. That is why Economics should be regarded as a realistic subject. We draw upon our day-to-day experience for finding out the fundamental data, and on their basis raise the superstructure of our theory ; or when a theory is the result of deductive reasoning, we verify it with reference to our daily experience. As Professor Robbins rightly observes, "Propositions (of Economics) are deductions from simple assumptions reflecting very elementary facts of general experience. If the premises relate to reality, the deductions from them must have a similar point of reference."⁵

25. This does not, however, exhaust our discussion ; for human behaviour is subject to variations. Under a given set of circumstances, one person may behave in a particular fashion but another person may

⁵ Robbins, *Nature and Significance*, p. 104.

act in a different way. How can Economics draw generalizations under these circumstances? This, however, is not so difficult a problem as it might seem at first sight. Human behaviour, so seemingly different in individual cases, presents astounding similarity when looked in a mass. If we make observations on a large scale, we should unmistakably find that men behave in a particular manner in a particular set of circumstances. It is this average behaviour which Economics takes into account. This is, however, not a new proposition. Physiocrats long ago pointed out, and they were the first to state it, that though individual human behaviour is subject to whims and eccentricities and is haphazard and variable at first sight, it is generally responsive to certain definite and invariable laws. Economists must find out these laws which provide the subject-matter of, and constitute, our science. Since their days, this point has been clearly accepted by economists, and it has, in fact, become almost an axiom. Economists have to study the activities of an average or a representative man. They do not study the activities of a mad person, for instance, because an average person is not mad. A drunkard is similarly excluded from our considerations. If we were to take the behaviour of such persons as our basis we will have to withdraw the basic assumption of rational conduct, in the absence of which no proper science can be developed. There can then be no law of diminishing

utility, to take only one example, for that law operates only in the case of a normal person.

26. The average or representative character of a person whose behaviour is studied by Economics implies that the person must be a member of society. Evidently no average can be drawn unless a mass of data is available. There is a difference of opinion on the point as to whether Economics necessarily studies a social man. It is a problem in itself and will be taken up later. We ourselves maintain that Economics studies the activities of a social man.

27. *Homo Oeconomicus*. Orthodox classicists were extremely deductive in their reasoning and used to make certain assumptions to facilitate their study. Now, there is nothing bad in making assumptions for no science can be developed without making some assumptions. But the classicists carried this process too far, as is likely to happen in purely deductive studies, conceived the idea of *Homo Oeconomicus* or Economic Man, and made such a man the object of their study. Hardly eight decades ago it was written that Economics "assumes that every man who makes anything makes it for money, that he always makes that which brings him in most at least cost, and that he will make it in the way that will produce most and spend least; it assumes that every man who buys, buys with his whole heart, and that he who sells, sells with

his whole heart, each wanting to gain all possible advantage. Of course, we know that this is not so, that men are not like this ; but assume it for simplicity's sake, as an hypothesis."⁶ The economic man was thus the result of a hypothesis. He was "not a human creature but a hypothetical monster, created for the purpose of scientific study, and intended in some respects to be put to the same uses in the inquiry into economic problems as the use to which a skeleton is put by a physiologist."⁷ The study based on this hypothesis was removed from real life ; but this was forgotten by early classical economists in the application of their conclusions to practical life. That was a snare from which there was no escape. Now this hypothesis has been dropped for good. The real average man is now received as the subject of study under economic science.

⁶ Bagehot, *Economic Studies*, (1880), p. 1.

⁷ Goschen, *Ethics and Economics in Economic Journal* (London), 1893, p. 377.

CHAPTER IV

THE CONCEPTS OF 'SCIENCE' AND 'ART'

Political Economy is at once a science and an art. The value of the science has for its efficient cause and measure, its subservency to the art.—*Jeremy Bentham*.

1. We may now discuss the nature of Economics as a branch of knowledge. In other words, we may now enter into the controversy as to whether Economics is a science or art, or both. This seems to be a very elementary thing for study but, in fact, it is one of the most controversial issues of Economics. Economists do not appear to have paid much attention to the fixation of the meaning of the terms *Science* and *Art*; and in fact, some of them use them in senses contrary to their meaning in everyday speech or in other branches of knowledge. Possibly the problems of this nature are regarded as too elementary by the high priests of economic science; and lesser people have not found it possible to deviate from a course set by the leaders of thought. It, however, seems essential that attention is paid to this aspect of the matter and the exact meaning of these terms is carefully determined.

2. There are two sets of opinions in the existing economic literature regarding the conceptions of the terms *Science* and *Art*, each of which seems to contain an element of substantial truth. The first viewpoint is

propounded by J. N. Keynes. According to him, "a *positive science* may be defined as a body of systematized knowledge concerning what is ; a *normative or regulative science* as a body of systematized knowledge relating to criteria of what ought to be, and concerned, therefore, with the ideal as distinguished from the actual ; an *art* as a system of rules for the attainment of a given end. The object of a positive science is the establishment of *uniformities*, of a normative science, the determination of *ideals*, of an art, the formulation of *precepts*."¹

3. Keynes's triple classification is met with an opposite view, according to which science is knowledge and art is practice. Every knowledge has its counterpart in practice : every science has its art. Knowledge or science is, again, divisible into Positive Science and Normative Science. This view is expressed by Professor J. K. Mehta of Allahabad University.²

4. The differences between these two viewpoints are as follows : (i) In the first case, Art is regarded as a branch of knowledge ; while in the second case, it is not considered to be a branch of knowledge at all—on the contrary, it is said to consist in practice (ii) In the first case knowledge is said to have a branch which tells us how to achieve an ideal. Such a branch of knowledge finds no place in the second classification.

¹ J. N. Keynes, *Scope and Method*, pp. 34-35.

² J. K. Mehta, *Groundwork of Economics*.

5. Let us proceed to co-ordinate these viewpoints. In fact, the more one studies Economics, the more one would feel convinced that many of the existing differences can be generally compromised if antagonistic views are carefully and dispassionately co-ordinated and a reasonable synthesis is evolved.

6. What is the correct import of the term *Art*? *Art*, according to J. N. Keynes, means knowledge which teaches us how to accomplish an ideal ; while according to the second classification, it is quite apart from knowledge and consists in action. We have to decide which of these two opinions is correct. The solution should not be very difficult, for these terms are in use in everyday speech, in other sciences, as well as in the field of the several arts. The sense in which this term is used in these spheres should enable us to make a decision.

7. *Art*, according to common usage, connotes the sense of practice. A man may be able to give a very learned discourse on painting, for instance, but may not be able to paint a single good picture. Such a man cannot be called an artist. Only a man who can paint pictures, though he might not be able to tell the theory and knowledge underlying his art, is called a painter. *Art*, then, consists in practice.

8. The above opinion finds support from authorities on various arts. *Art* is narrowly defined, as is

done by Signor Croce, as nothing but an intuition having no relation to morality or utilitarianism.³ This definition is not very explicit for our purposes ; moreover, very few artists of today would probably agree with it. From a broad point of view, art is, in the words of Dr. MacColl, the way of doing or making anything in such a fashion as to bring rhythm in it.⁴ The word 'doing' is important in this connection. For it shows that art consists in practice and denotes action.

9. This view also finds support from other branches of knowledge. Herbert Spencer's *First Principles* has a sentence that "Knowledge of the lowest kind is unified knowledge, science is partially unified knowledge, philosophy is completely unified knowledge."⁵ According to this great thinker, science is co-extensive with knowledge. The fine line of demarcation that has been drawn by Herbert Spencer between science and philosophy is probably due to the fact that he, like some other philosophers, considered philosophy to be the highest form of evolution of human knowledge, where all branches of knowledge were freely accessible and helped to take a particular discipline to the stage of perfection. In Economics, all the higher discussions become philosophic in their complexion. In

³ Croce, *The Essence of Aesthetics*.

⁴ D. S. MacColl, *What is Art*, pp. 14-15.

⁵ Herbert Spencer, *First Principles*, p. 110.

Economics as in every other branch of knowledge, one has often to creep on the border-land of the discipline where other branches seem to mingle with it spontaneously and where it is the under-current of philosophic vein which unites them all in one indivisible whole. It does not, therefore, appear to be very necessary to make a distinction between the partially unified knowledge and completely unified knowledge, for a science in its higher stages is mostly concerned with the latter ; the former appears only as a partly manufactured substance in the thought-process.

10. A writer of Physics thus defines science ; "Science measures perfect knowledge about a substance obtained with the assistance of careful experiment, honest observation and accurate reasoning." This definition excludes art from the scope of knowledge. Bliss, while classifying the entire body of knowledge, defines art as follows : "Art is *a method of doing or producing something that does not exist in nature.*"⁶

11. It may, therefore, be concluded that art is practice while science is knowledge. Every science has its art. The science of Economics has an art of Economics. But an economist is not an artist during the course of his study, whereas anybody who is consciously or unconsciously engaged in economic activities

⁶ Bliss, *Organization of Knowledge*, p. 295.

is an artist. We have, therefore, to abandon J. N. Keynes's classification of knowledge.

12. But this leaves one outstanding problem. J. N. Keynes gave to the branch of knowledge that lays down rules for the attainment of a given end, the designation of *Art*. This is, indeed, a highly plausible and probably very useful branch of knowledge. Its independent existence is also recognized. We submit that this branch of knowledge may be called *Applied Science*.

13. We can now proceed to co-ordinate the two sets of opinions given above as follows: Economics is studied as a science and practised as an art. The Science of Economics includes (i) Positive Science of Economics, which studies what is; (ii) Normative Science of Economics, which studies what ought to be; and (iii) Applied Science of Economics, which suggests ways and means of achieving an ideal.

14. We now return to the main purpose of our enquiry which was to find out the nature of Economics, to discover whether it is a positive science, or a normative science, or an applied science, or all. This, again, is a highly debated part of Economics. There is hardly any other topic on which so much difference of opinion exists. What was once said for Socialism, might almost be said for Economics that if you want an iceberg to melt, leave two economists on it and let

them discuss whether Economics is a positive science or normative science or applied science !

15. Orthodox classicists, like Senior and Mill, Cairnes and Bagehot, all maintained that Economics is a positive science, and its object is to find out the causal and effectual relationships regarding economic phenomena and discover uniformities which should be expressed in the shape of laws having universal and invariable character. Economics was averse to norms, and the issue of preceptions and prescriptions was not its necessary function. A strong reaction against this tendency appeared in the shape of the German Historical School, which extended the scope of Economics so as to include in it the queries as to *what is* and *what ought to be* as well as *what to do*, and denied that any line of demarcation could be drawn between them. Marshall effected a compromise between these two opposite views and declared that while Economics was a positive science, its aim was to provide tools of social betterment. Pigou follows Marshall in this respect. While Marshall wanted Economics to keep to its conservative form of a positive science, he was equally keen to accommodate the view that it should be conscious of the objective of social betterment. He, therefore, tried to make a compromise. This compromise had the essential element what a compromise should have, namely, that it accommodated both the

points of view ; but the synthesis that was produced was rather vague. For it is a little difficult to see how a science can claim to have no aim and at the same time have it ! The result was that the demand for developing Economics as normative and applied sciences continued. Socialists, interventionists, institutionalists, inductivists and sociologists, all continued to put forth their viewpoints though in a subdued tone. But in 1932 Professor Robbins clearly and directly declared that Economics was neutral between ends. Its only function was to discover economic uniformities. Professor Robbins's attitude, with its extensive influence, meant a return to the orthodox classical position. It shut out from Economics what the different groups of economists with ethical and social leanings wanted to incorporate in it, *viz.*, ideological and applied forms, and what Marshall had somewhat conceded to it in a grudging, halting way. It naturally led to almost an uprising. Robbins seems to have led a crusade in favour of die-hard conservatism in Economics, which could not but provoke opposition to renewed and vigorous activity.

16. Let us try to understand the basic issues involved in this heated controversy.

THE POSITIVE SCIENCE OF ECONOMICS

Experience teaches us that a thing is so and so, but not that it cannot be otherwise. Experience never confers on its judgments true or strict, but only assumed and comparative universality, through induction. We can properly only say, therefore, that, so far as we have hitherto observed, there is no exception to this or that rule.—*Immanuel Kant*.

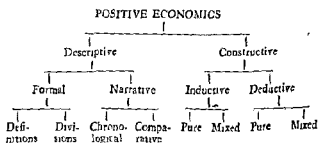
1. That Economics is a positive science, is readily conceded by economists of all schools and all shades. Economics was, from the very beginning, regarded as a positive science, and has been developed in that form. It is, indeed, its most widely studied and most developed form today.

2. So deep is the impression made by Economics as a positive science that in many text-books of Economics one finds it mentioned that Economics is a science, for the function of the science is to establish the relationship between cause and effect, which is performed by Economics. This, as a matter of fact, is the function not of science as a whole but of positive science. The mistaken identification of the science as a whole with positive science, is the result of the fact that Economics has from the start been regarded as a positive science.

3. The positive science of Economics has a descriptive function to perform. It seeks to describe economic phenomena and conditions. No subject can,

however, be raised to the status of a science merely on the score of its descriptive character. The Positive Science of Economics also seeks to study the *modus operandi* of economic phenomena and establish the relationship between cause and effect. Its function, it has been rightly observed, is to build up a conceptual working model of the body economic as it lives and moves; to display its anatomy and physiology, the interaction of its several parts, the response it tends to make to various kinds of stimulation and so on.¹

3. In Palgrave's *Dictionary of Political Economy*, W. E. Johnson gives the following classification of Positive Economics:



4. The first function of Positive Economics is descriptive which itself is sub-divisible into (i) Formal, concerned with definitions and classifications necessary to understand the subject; and (ii) Narrative, related with historical and comparative investigations. The constructive function of Positive Economics is the

¹ Pigou and Robertson, *Economic Essays and Addresses*.

establishment of laws which are arrived at by purely inductive method or purely deductive method, or deduction modified by induction or induction modified by deduction.² This is the comprehensive scope of the Positive Science of Economics.

5. The Positive Science of Economics was greatly developed, largely deductively, by orthodox classical economists. They did not professedly concern themselves with anything else, even though they did not always live up to this ideal. The Historical School was a reaction against extreme deduction, and it emphasized the validity and merits of the inductive method of investigation. After a time deductive and inductive methods both joined hands to develop Positive Economics. More recently, a new school of economists, called Inductivists, has appeared on the scene who put great emphasis on induction. They assert that Economics should be a quantitative science. All knowledge is quantitative and becomes definitely so the more it reaches completion. Hence inductive and statistical studies will be of the greatest use and value in the evolution of Economics.

6. The variation in the emphasis on one or the other method has been associated with a difference in the nature of economic study. It is responsible for the

² See J. N. Keynes, *Scope and Method*, pp. 174-175.

present controversy among economists as regards the type of human behaviour which should be made the base for drawing generalizations. Deductivists state that we should study human behaviour in its extremely simplified form with few fundamental characteristics found universally true, while inductivists favour the study of human behaviour as it really exists within the institutional framework of society.

7. Deductive economists, like Senior and Mill, Cairnes and Bagehot and recently Professor Lionel Robbins, have all argued that Economics should try to discover human behaviour based on the fundamentals of human nature, which would remain the same irrespective of the institutional settings surrounding them. The laws derived from such study would have universal application, for human nature in its essentials remains the same in all places and times. In this way Economics can be made as definite and universal as a physical science. Economics is, according to them, a positive science discovering the basic fundamentals of human nature and formulating generalizations derived therefrom by reasoning.

8. German Historical School, which has now spread its influence and created its representatives throughout the civilized world, on the other hand, asserts that economic conditions are variable, and so are the laws which regulate the economic activities of human beings. Hence every economic doctrine must,

in the very nature of things, be relative. Institutionalists, led by Veblen³ and others, also argue that human nature changes slowly but institutions are in a state of constant change. Hence the thing which governs variations in human behaviour is the institutional setting. A correct system of Economics must, therefore, base its laws on the institutional setting.

9. It is easy to appreciate the point of view of classicists and deductivists on the one hand and of historical and institutional schools on the other. If Economics is to be a science of universal application, it can be made so on the lines suggested by the classicists. But such a science might not be of great practical use. In order to be of practical utility, it has to evolve generalisations on the strength of extant economic conditions and institutions. Basically, therefore, a choice is to be made between the universality of Economics and its practical usefulness, and one view or the other chosen accordingly.

10. We, however, believe that Economics can, and should, include generalisation of both sorts. Fundamental Economics and Relative Economics, to give names to these two types of theories, can form parts of Positive Economics. The deeper we go in the study of basic traits of human nature and in reaching abstract generalizations based thereon, our approach becomes

³Thorstein Veblen (1860-1929), an American, was the founder of the Institutional School.

more "fundamental". The more we try to analyse real situations, solve practical problems and formulate practical policies, our approach becomes more "relative". An economist has to work in both these spheres; and can study both. In fact, our system of Economics is a combination of both. Human behaviour is a function of human nature and institutional setting. The former changes slowly while the latter is in a state of constant flux. Our real endeavour should be to develop *fundamental economic doctrines on the basis of the essential characteristics of human nature*, and *relative economic doctrines on the basis of extant institutions*.

11. There is, however, no difference among economists as regards the existence and development of Positive Economics. Every economist agrees that the Positive Science of Economics exists and should be further developed; but some of them insist that Economics exists, can exist and should exist only as a Positive Science. The conservative British economic thought, dominated by Robbins, insists on this view-point.

12. But this view-point is not capable of ready acceptance. If Economics were to exist only as a Positive Science, without any aim and practical significance, it will have only limited value. It will also perhaps remain incomplete. Everything must have some aim and object, and Economics should develop its ideal. In the light of this ideal, the deficiencies in the existing

order can be discovered and remedies of their removal suggested. Only then our subject would be logically complete. Otherwise economists would unify only a small portion of all the knowledge that falls within the scope of Economics.

13. The reason why all the positivists assert that Economics is only a Positive Science is their desire to make it a universal science. Hence whatever fails to make Economics universal must be excluded from economic studies. This has always been the position of classicists. This was so with Ricardo; and this is so with Robbins. To Robbins, "equilibrium is just equilibrium"; "there is no penumbra of approbation round the theory of value." Universalism, according to them, is inherently good, which they must have at all cost. But this is taking a very restricted view of the functions and capacity of economic science. It will be far better to take a wide view of the matter, and try to improve the tools and methods of Economics so as to be able to give a full treatment to all the aspects of the problems it seeks to deal with, rather than to run away from them. If economists would not study them, who would?

CHAPTER VI

THE NORMATIVE SCIENCE OF ECONOMICS

There can be no doubt, however, that he who unreservedly would deny scientific legitimacy to judgments of value narrows the sphere of science in a scientifically non-tenable way, and is at the same time adopting a standpoint which can only be disastrous for society as a whole, since this would be to rob society of a genuine leadership in things of the mind, a leadership more necessary than ever at the present time.—*Wilhelm Röpke*.

1. Economics in its purely positive form appears to some economists to be a colourless and from practical point of view an almost useless science. It is their feeling and conviction that it should evolve itself into a truly human science, so that it is able to show the way to the maximization of economic welfare of society. In other words, it is maintained that Economics should be developed in its normative and applied aspects.

2. The Normative Science of Economics seeks to set up the norms which can make an economic system desirable. Desirability cannot be given a fixed expression, applicable to all conditions and times; but in a democratic set-up, it will have to conform to the common will of the people. In all events, it will consist in the maximisation of the economic or material welfare of the people.

3. The Normative Science of Economics, it must be admitted, is little developed at the present moment.

This is the greatest obstacle in the way of its getting popular support, and also its future progress. Its past neglect is mainly ascribable to the dominance of the positivist element in the British economic world ; but it should not be allowed to be a cause for its neglect in future also. Comprehensive and complete study of Economics will not be possible unless it sets up appropriate ideals and suggests methods of economic progress. Moreover, the idea of economic welfare has always been at the back of the mind of economists in the past, even when they expressed themselves openly against it.

4. It would be wrong to think that economists have been unanimously maintaining from the very beginning that Economics should not be wedded to Ethics.¹ Some economists of practically every generation have, in fact, been feeling that this union should be brought about. In its origin, Economics was meant to suggest certain rules for achieving certain ideals. Dr. Thomas Chalmers of Edinburgh University published in 1832 a book, *On Political Economy in Connection with the Moral Prospects of Society*. Baudrillart, a French economist, published a similar treatise in 1860, which he called *Des Rapports de la Morale et de l'Economie Politique*. Ruskin was forceful in the expression of his view that Economics divorced from Ethics was mons-

¹ See Frank A. Fetter, *Price Economics versus Welfare Economics* in the *American Economic Review*, Vol. X, September, 1920.

trous. Wagner and Schohenberg, German economists, were also of this opinion. The latter charged Economics with the duty of studying how far the moral aims of life are fulfilled through economic activities. They declared themselves to be definitely ethical and asserted that Economics must determine the standards of just and right production and distribution. It should have an ideal of economic development which should be evolved with reference to the ethical as well as material considerations. Sir John Marr ot wrote a very interesting book, *Economics and Ethics*, some time back. Recently the Anglo-Saxon thought has been definitely drifting towards this opinion.²

5. The above discussion strengthens the case for the development of Normative Economics. The greatest argument in favour of such a science is its conceivability. We can conceive of such a science in the shape of a systematized body of knowledge ; and, therefore, it can exist. Then, again, nobody but an utter individualist would deny its usefulness. It has been stated above that some economists have attempted in the past to suggest the way in which this science can be evolved ; and many more have, from the very beginning, been expressing their opinion on the excellence or otherwise of a particular aspect of an economy. Adam Smith supported Navigation Laws, limited the doctrine of *laissez faire* and emphasized the

² See Suranyt Unger, *Economics in Twentieth Century*.

necessity of the labour welfare work. Mill in his *Principles* treated economic principles in "some of their applications to social philosophy." The chapter on "the probable future of the labouring classes" that he gives, is a superior instance of ethical treatment of economic problems. Marshall was a strong critic of the poverty of the masses and gave sanction to the inter-personal comparison of utility mainly on humanitarian grounds.

6. Economists have in the past also been pointing out shortcomings in the various spheres of economic field. Now, how can one discover a shortcoming unless one has first conceived of what is without shortcoming? How can one detect imperfections unless one has an idea of what is perfect? The very fact that one points out some defect, indicates that one has brought into the picture some sort of ideal that he may have in his mind.

7. Economists have also been prescribing remedies to remove certain defects and shortcomings that strike them or to achieve certain ideals which they like. The conception of the ideal is bound to be present before the person who seeks to suggest remedies. They have not been expressly suggesting the goal which they wish social policies to achieve and to which their policy-suggestions eventually lead; but that does not entitle them to deny the normative role to Economics. At any rate, it would appear that it is the social good

which has always been at the back of their minds ; and they have always, consciously or unconsciously suggested ways and means to achieve those ends alone which promote the well-being of society. They suggest, for example, methods for discouraging drink habit or the hoarding habit. Has an economist ever suggested ways and means for making burglaries successful or for chopping of the noses of one's adversaries ? Why not ? Simply because he does not wish to encourage the practices against social welfare. It is the interest of the society which is, whether you agree or not, always at the back of his mind. The charge made by the German Historical School against English economic thought of 19th century that it was unmoral was true more of the tone of the economists and less of the substance of their thought which has always been guided by the considerations of social good. This is so even today. The difference between what an economist professes and what he does lingers on.

8. It can also be stated that when one recognises the existence of Positive Science of Economics, one has also to recognise the existence of Normative Science of Economics. 'What is' will lose much of its purpose without 'what ought to be.' Similarly, the recognition of Applied Science of Economics involves the recognition of Normative Economics. 'How to achieve the ideal' is meaningless in the absence of the

ideal. What more, 'what is' can develop fully and completely only with the help of 'what ought to be'; otherwise its growth will be stunted. Unless one knows the real object of one's quest, one is likely to observe and study the irrelevant and leave the relevant out of consideration. The opinion of Wagner and other members of the German School that no department of Economics can be separated from the others, may not be allowed to go unchallenged for it is possible to study the present in the absence of any set ideology, but it would have to be conceded that without the ideology the study of the present would not be fully developed.

9. It is asserted by positive economists that "From a rational or scientific point of view, all practically real problems are problems in Economics. The problem of life is to utilize resources 'economically.' The general theory of Economics is, therefore, simply the 'rationale of life.' But it stands to reason that economy or efficiency is a norm which must be judged from a criterion. What other criterion can it be than the criterion of social welfare? And if so, how can Economics be kept beyond the pale of normative considerations?"

10. If it is admitted that Economics studies real man, it is implicitly conceded that it takes into account all the considerations which are bundled in his self. This bundle includes not economic considerations

alone, but also ethical considerations. No activity of man, unless he is an abnormal and depraved creature, is divorced from ethical considerations. Each one of us pays one anna more to a *tongawala* who appears to be poor or who puts us in a compassionate mood. Even those who would not like to feed beggars on the principle that it encourages beggary, would gladly pay twice the current rate to a beggar if he would do some work. It cannot probably be helped. It is natural. A science of Economics developed without this consideration would be unreal. It would gravitate to the old position when it used to generalise on the basis of the economic man. In denying recognition to the Ethics of Economics, is Economics not really drifting to the tatterdamallion of the Homeo Oeconomicus?

11. The assertion that Economics should exist merely as a positive science could be deemed to be somewhat natural in the initial stage of the growth of Capitalism when human sympathy was regarded as "a diseased variety of sentimentality." But today when human sympathies have become broad and serious inroads on our mental furniture have imperceptibly been made by Socialism, when labour welfare, progressive taxation, succession duties, improvement in working conditions and things of like nature have come to be recognized and sanctioned, it would not perhaps be quite proper to persist in the a-moral attitude.

12. Particularly after World War II which ushered in a revolution in the spheres of thought and action and demonstrated the social utility of the normative and applied aspects of economic science, it would be awkward and unrealistic to persist in depriving this branch of knowledge of its ideological phase. Much has been done in recent years in the spheres of post-war reconstruction and social security, the spheres in which one cannot make progress without having some ideals and norms to achieve and strive for; and both these fields are of economic nature. In Great Britain Lord William Beveridge set up an ideal of *social security which that country has largely accomplished*. Marsh in Canada, Wagner, Murray, and Dingell in U. S. A. and a strong committee in the Union of South Africa already prepared social security plans. In other countries also, similar plans were made. In the wider sphere of economic reconstruction, the questions of the level to which *per capita* income and standard of living should be pitched up, the *role* that should be assigned to industrial sector of economy *vis-a-vis* agricultural sector, the ideal that has to be followed with regard to foreign trade and a whole host of other like considerations have been faced and solved; and they are all matters of economic ideology. Those who today insist that *Economics* should only have the *role* of positive science, perhaps ignore the realities of modern conditions.

13. It was a characteristic of the orthodox classical economists that they all insisted on Economics being merely a positive science, with no utilitarian pretension. This conservative attitude was vehemently criticized by social reformers. Nationalistic economists began to press for the setting-up of an ideal for Economics, which has to be the maximization of the welfare of a particular society or nation. Socialists also, with increasing influence, envisaged Economics as a tool for the maximization of the welfare of the community as a whole. This was the position when Marshall appeared on the economic scene. He effected a compromise between the antagonistic opinions. He emphasized that Economics is a positive science and should be developed only as such; but he conceded that the aim of economic studies is social welfare. He said that Economics develops such knowledge out of which an average social reformer might fashion a practical policy of great social utility. "The aims of the study," wrote Marshall, "are to gain knowledge for its own sake and to obtain guidance in the practical conduct of life and specially social life."³ Again, "the practical issues though lying for the greater part outside the range of economic science, yet supply a chief motive in the background for the economist." Professor A. C. Pigou holds the same view. "When we watch," says Pigou, "the play of human motives that

³ Marshall, *Principles*, p. 117.

are ordinary—that are sometimes mean and dismal and ignoble—our impulse is not the philosopher's impulse, knowledge for the sake of knowledge, but rather the physiologist's impulse—knowledge for the healing that knowledge may help to bring.”⁴

14. The attitude of Marshall and Pigou seems to be somewhat unsatisfactory. They do seem to realize the points of view of normative economists. They also comprehend that if the science of Economics is to be of practical aid in contributing to social welfare, it should have the ideal of social good before it. But even then they say that the science of Economics should be developed as a positive science only, in which form it should try to provide material for the framing of policies conducive to social welfare. It is difficult to see how a science which has no ideal can be developed to solve an ideal.

15. While the attitude of Marshall and Pigou is not satisfactory, Robbins has taken a more reactionary view and has reverted to the position of the orthodox classicists. Robbins argues that Economics is perfectly neutral between ends. It is not a function of Economics, according to him, to keep before it the ideal of social welfare and prepare material out of which a practical policy of its promotion can be fashioned. “The ends,” says he, “may be ‘material’ or ‘immaterial’—if

⁴ A. C. Pigou, *Economics of Welfare*.

ends can be so described. But if the attainment of one set of ends involves the sacrifice of others, then it has an economic aspect."⁵ "Economics, then, is in no way to be considered as we consider Ethics or Aesthetics as being concerned with ends."⁶ He would not concede to Economics even the aim of social welfare which Cambridge economists gave it. But it does not appear to be certain that Professor Robbins has been able to keep himself untouched by any sort of ideology. Professor Fraser rightly observes that if Professor Robbins admits—as he clearly does—that it is an *object on* to a given way of achieving a purpose that is 'uneconomical', then he is implying that 'economy' is an end and that waste is bad.⁷ Dr. Edwin Cannan also quotes with disapproval the observation of Professor Robbins that "there are no economic ends. There are only economical and uneconomical ways of achieving given ends. We cannot say that the pursuit of given ends is uneconomical because the ends are uneconomical; we can only say it is uneconomical if the ends are pursued with an unnecessary expenditure of means." Dr. Cannan supposes that Professor Robbins "would see no economic objection to owners burning their property, if 'having regard to all the issues and all sacrifices involved,' they think it worth-

⁵ Robbins, *Nature and Significance*, pp. 24-25.

⁶ *Ibid.*, p. 31.

⁷ See Fraser, *HOW DO WE WANT ECONOMISTS TO BEHAVE?* in *Economic Journal*, December, 1932, p. 557.

while to try to cheat the fire insurance company" And he finally comments, "Get on with your fraudulent arson, but mind you don't use more matches than are necessary."⁸ Robbins has shifted Economics to the back track and has divided economists among themselves and has estranged the sympathies of persons interested in the maximisation of social welfare.

16. But this reactionary stand of Robbins has provoked supporters of normative Economics to greater activity. Many economists have now begun to emphasize the strictly ethical aspect of Economics rather vehemently. The British economic thought is now undergoing a change for the better. The recent writings of Professors Harrod and Hicks, for instance, show definite drift away from the orthodox viewpoint. There are welfare economists like W. H. Hamilton who not only believe in Normative Economics but have also contributed to its development.⁹ The welfare idea is steadily gaining ground in Anglo-Saxon thought.¹⁰ It would thus seem that the concept and usefulness of Normative Economics are better understood today than before. One might hope that economists, at any rate some of them, would make endeavour to reconstruct economic science so as to develop its normative aspects.

⁸ See *Economic Journal*, September, 1932, p. 425.

⁹ See Tugwell, *Trends of Economics*.

¹⁰ See Suranyi Unger, *Economics in the Twentieth Century*, pp. 263-264.

CHAPTER VII

THE APPLIED SCIENCE OF ECONOMICS

The world cannot afford to lose the journeyman economist, whether as a civil servant or as a private citizen; neither will the economist gain by withdrawing from the world of affairs and taking to his tower of ivory. With all their faults, they are the only persons sufficiently divorced from the special interests of the ironmonger, hog-grower, truck driver, or brush salesman to be able to see, as Marshall puts it, the one in the many and the many in one. The world would fall apart if these artisan services were withdrawn, and theory would become sterile if theorists had no contact with reality.—*J. S. Gamsk.*

1. The applied Science of Economics is concerned with devising ways and means for achieving ideals by removing the defects in the existing economy. The study of the present and its examination in the light of the ideals, points out certain shortcomings which, if removed, would certainly augment social welfare. Ways and means must, therefore, be found out to remove the shortcomings. The Applied Science is, as such, a necessary complement of the Positive and Normative Sciences.

2. Positivists, who deny the existence of the Normative Science of Economics, logically deny the existence of the Applied Science of Economics. And, logically again, most of the arguments mentioned above in support of the Normative Science, become indirect arguments in support of the Applied Science of Economics.

3. Economists of almost every generation have been suggesting some methods, advocating certain remedial measures and opposing others, for the removal of certain shortcomings of the economic system. There is hardly any aspect of our economy which has not passed through the critical crucible of the economists, whose defects have not been pointed out, and the methods of their removal not suggested. Planned economy, war economy, minimum wage fixation, discount rate and similar other problems are only a few out of a large number of practical problems with which economists have been keeping themselves busy for a long time. It would, therefore, be somewhat unrealistic to deny the existence of the Applied Science of Economics.

4. While almost every economic problem has directly or indirectly a practical significance, there are certain economic problems, as those relating to banking, currency and public finance, in which theoretical and practical aspects are inextricably mixed up and the separation of applied science from positive science is evidently and necessarily pedantic.

5. The enormous importance of theoretical knowledge lies in the fact that it affords materials out of which tools of practical policy and programme can be fashioned. Financial, industrial and other economic policies, if rightly conceived and meant to be of practical use, must necessarily be based on theoretical

knowledge which only an economist can possess. Who else can then develop applied science of economics but an economist?

6. It is only by studying practical problems that an economist can know new facts, attempt fresh generalisations and add to pure theory, because pure theory cannot always be built in a vacuum and it also needs verification from real world. Certain pure theories have been found to lack support from business practices in U. S. A., leading to their reconstruction. The link with matters of practical utility will strengthen the Positive Science of Economics itself.

7. Historically, Economics was an applied science in its origin. The term 'Political Economy' was derived from two Greek words, meaning the law of household management. Adam Smith also regarded it as an applied science which enabled people to obtain sufficient wealth, though he proceeded to treat the subject along positive and normative lines as well. We have already mentioned how he participated in the topical issues like Navigation Laws and Free Trade. Later, under the influence of the other positive sciences with fixed and universal laws, Economics slowly began to be regarded as a positive science. Certain sections of economists, however, did emphasize the applied aspects. Socialists thought of Economics as an applied science meant for maximizing general welfare; and nationalists considered it to be an applied science for

maximizing national welfare. However, even those economists who regard Economics only as a positive science, have not always been able to act up to their ideal. Mill, Ricardo, Marshall and others were all concerned with the burning topics of their day and suggested remedies to cure economic ills. Ricardo's participation in the issues of corn law and bullion controversy was most productive. Malthus was similarly concerned with poor laws and revolutionary radicalism. Cairnes discussed the problem of wages fund and trade union.

8. Marshall tried to resolve this controversy by making a compromise. He stated that Economics is not in itself an applied science but it forms the basis of an applied science. Professor A. C. Pigou is of the same opinion. Marshall says that after making a positive study of Economics, the economist "retires and leaves to common sense the responsibility of the ultimate decision."¹ Now, economists to be sure are not devoid of commonsense; and, if so, they should not fight shy of taking ultimate decisions which, according to Marshall, require only commonsense.

9. Professor Pigou observes that "though, for the economist, the goal of social betterment must be held ever in sight, his own special task is not to stand in the forefront of attack, but patiently behind the lines

¹ *Memorials of Alfred Marshall*, pp. 164-165.

to prepare the armament of knowledge."² This position also does not bear scrutiny. According to him, the aim of Economics is social welfare, but economists must be back-benchers and should not come forward to suggest ways and means of social welfare. Another Charles Kingsley might again impatiently declare that "the man who tells us that we ought to investigate nature, simply to sit still patiently under her, and let her freeze, and ruin and starve and stink us to death, is a goose, whether he calls himself a chemist or a political economist."³

10. Professor Robbins has tried to take away from Economics whatever little concession was made to it by the Cambridge economists. He withdraws the ideal of social welfare, and also the duty of economists to work "patiently behind the lines." To him Economics is only a positive science. He would leave Economics to extreme abstraction and deduction, and cut off the bonds that bind it to practice. This is a return to orthodox classical position which seems to be out of the tune with the spirit of the times.

² *Ibid*, p. 84.

³ Stubbs, *Charles Kingsley and the Christian Social Movement*, p. 141.

CHAPTER VIII

THE MAIN OBJECTION TO NORMATIVE AND APPLIED ECONOMICS

They (Keynesians) are not all agreed on what the state should do, but each has his own recipe for full employment, higher living standards, and lasting prosperity. These programmes for the most part are logically consistent and highly persuasive. They make the task of social betterment sound easy, or if not easy at any rate uncomplicated.—*Paul M. Sweezy*.

1. The main objection to the normative and applied sciences of Economics is that the setting up of norms and the suggestion of remedies, in order to have ultimate significance, must be based on all-sided considerations—not only on economic considerations but also on political, ethical, judicial, psychological and other considerations. Hence, economists, who have only economic knowledge, cannot and suggest, and are as a matter of fact incompetent to suggest, either norm nor remedies. Their suggestions in these respects would have no finality and would as such be useless.

2. The substance of the above argument appears to be correct. The ideals set up and remedies suggested must, in order to have ultimate significance, necessarily be, firstly, the best ideals or remedies, and, secondly, practicable. The ideal or remedy falling short of the best cannot be put in practice, and the ideal or remedy not practicable has to be rejected as

being Utopian. These two characteristics of bestness and practicableness can be secured if all the considerations, and not economic considerations alone, which influence human thought and living, are taken into account. Political, ethical, psychological, legal and other facets of human life must be referred to, so that the ideals and remedies must be the best on all these grounds. Otherwise, they will lack finality.

3. It is, however, one thing to say that ideals and remedies must have these qualities in order to be finally acceptable, and quite another to hold that the ideals and remedies lacking in finality are useless. Firstly, certain problems are mainly economic and the judgments delivered by economists on them are likely to have finality. The problems of bank rate, note issue, exchange rates, wage problem, etc., are such that the decision of economists is likely to have a conclusive and final significance. Secondly, if economists develop their norms and remedies with a view to social good, they will presumably take into account the general considerations promoting the best social interests. Consequently the diversity between economic decisions and decisions of other sciences is not likely to be so wide as is often supposed. Thirdly, even admitting that *Economics* cannot give finality to its norms and remedies, is it such a serious drawback as to forbid any such attempt? Let us, if necessary, frankly admit that the norms set up and advice tendered by econo-

mists would not be final. Economists need not assert finality in these respects. But must every advice be final and not suggestive? It is, indeed, wrong to argue that every ideal and advice must have finality. The ideals set up and advice tendered by economists can be, more or less, final on economic considerations, though they may be only suggestive to a sociologist or a statesman. Even if the economists are in a position to claim finality for their views, which is not in fact the case, can they compel sociologists or a statesmen to accept them? Most probably not. Even their final verdicts can only be suggestive to them. The finality, in fact, is not such a precious property that everything must be sacrificed for it, or nothing tried if finality is imperilled. Moreover, if this line of thought is accepted and economists begin to neglect normative and applied aspects of economic problems because they cannot claim finality in these respects, who would study them? After all, there must be *somebody in human society to pay attention to them*. It appears that at present it is the economists alone who are most familiar with this branch of knowledge, and who are best fitted to set up ideals and suggest remedies regarding economic problems. If they are made to neglect this task, it would most probably remain altogether neglected. None else has adequate equipment to perform it. Finally, economists do not declare that their suggestions are final. They are open to modifica-

tions, even change. Sociologists can certainly take up this work upon themselves; but no normative or applied sociologist doing this work efficiently, *i. e.* setting up sociological ideals and prescribing comprehensive sociological remedies, has yet come into existence.

4. It is certainly not a new thesis that an activity is either mainly economic, or ethical or political and so on, though it might have other facets as well. Every science mainly deals with the problems specially relating to it; and only incidentally it speaks about other problems which have nominal relation with it. With respect to the former, its considerations are likely to be final; with respect to the latter, its judgments are likely to do the work of modifying the more or less final considerations supplied by the sciences to which the problems in question mainly relate. If this line of argument is accepted, it would appear that economists can give, *more or less, final judgments on mainly economic problems*, which may be modified according to the viewpoints of other scientists by sociologists or practical statesmen. The advice of economists on matters having an incidental economic phase, can at least supply data to sociologists or practical statesmen for a reconsideration of the decisions made by other scientists.

5. It is necessary to point out here our conception of Sociology and its relation with its tributaries—Economics, Politics, Ethics, and others. Each of these

branches would or should develop its relative positive offshoot in which respect its students would naturally have the final say, requiring as it does that special knowledge which its students alone can possess. Each of them should also develop its normative and applied offshoots on considerations falling within its scope. In these latter spheres, no scientist can claim finality: this portion would be merely suggestive, submitted to the consideration and judgment of sociologists who alone would deliver the final goods. Sociology would then have two branches: Normative Sociology and Applied Sociology. The function of the Normative Science of Sociology would be to evolve the best ideals out of the normative material supplied by other scientists, which would have finality. Similarly, the Applied Sociology would examine the ways and means devised by other scientists, and modify them in the light of relative considerations available on all grounds, thus furnishing ultimate remedial measures.

6. In the modern age, specialization and departmentalization of knowledge seem to have been carried to extreme. This has done much harm. The society stands today in great need of all-sided intellectual co-operation. We share Comte's view that all the aspects of social life are so closely connected that a special study of any one of them may be futile; but we cannot wholly ignore the advantages of specialization. If the

above concept of Sociology in its relation to its tributaries is accepted, the society may have the advantages of specialization as well as intellectual co-operation of different sciences in the noble task of social betterment.

CHAPTER IX

SOCIAL CHARACTER OF ECONOMIC SCIENCE

Conflicts of opinion about the relative desirability of freedom, efficiency, security and equity are conflicts about ultimate values and, in a democratic system, a solution can be sought only through the ballot box. We vote for the type of government which will attach more weight to those of these ultimate ends which, in our opinion, are at the moment too little stressed; and I personally would attach great weight to security and equity as well as to freedom and efficiency.
—J. E. Meade.

1. The Science of Economics has long been considered to be a social science, for it studies the economic behaviour of human beings living in society and not of persons cut off from society like lonely sadhus worshipping God on the peaks of the Himalayas or a lonely man risen to adolescence in altogether lonely surroundings. The study of the behaviour of persons of the latter type might satisfy the economist's curiosity and might even be flattering to his theoretical sense, but it serves no better purpose than giving scope to his mental gymnastics. In fact, there is a positive danger that the generalizations drawn from the study of such human behaviour might be wrongly applied to social economy, which would lead to the repetition of the errors the like of which were committed by the ancients who found Economic Man a helpful concept. It should, therefore, be emphasized that Economics

studies the activities of a social man and is to be regarded as a social science.¹

2. Economists have, as a general rule, emphasized the social character of economic science. Adam Smith gave a decent burial to the atomistic, isolated individual economy. It was, again, characteristic of the German Historical School that they insisted on the social character of economic science. Marshall, in the Preface to the first edition of his *Principles*, made reference to the Hegelian principle of continuity according to which society cannot be divided into water-tight compartments, the individual is related to the society inextricably, and a study of human behaviour must in the very nature of things be a social study. Sociological economists, inductivists, institutionalists and welfare economists are all, implicitly or explicitly, of the same opinion. It is admittedly the foundation stone of the science of Economics.

3. Every phenomenon studied by Economics is, in fact, a social phenomenon. In the sphere of production, economists study human actions in social groups. The significance and importance of production by an individual have essential social aspects. He may produce wine and make men drunk. He may write

¹ The sciences relating to human beings fall into two classes: those studying man in his purely individual capacity and those studying him as member of society. The former are known as individual sciences and the latter as social sciences.

criminal literature and promote crimes. Production, moreover, is in modern times joint and co-operative, which characteristics imply a social economy. One cannot think of exchange except as a social phenomenon, for exchange necessarily requires human congregation. Distribution is strictly social. It implies a social group as its basis. In consumption, again, the social aspect of human activities is prominent. Man's wants are conditioned by social environment. Necessaries, comforts and luxuries, standard of living—all have profound social significance which an economist always studies. What one wants and what one consumes is of immense social importance. The concept of consumer's surplus is an important social concept. Demand is pre-eminently a social phenomenon. In economics of spending and saving, in family budgets and in other parts of our study, we never move away beyond the pale of society. Thus in every department of its study, *Economics* is essentially social. It is difficult to imagine an economic act which is without social repercussions.

4. Professor Robbins, however, does not seem to subscribe to the view that Economics is essentially a social science. He is of the opinion that it is a social as well as an individual science. His thesis that Economics is an individual science is based on two propositions :

- (i) The behaviour of an isolated man, as of a social

man, is subject to the limitations of the scarce means having alternative uses and is capable of being subsumed under the same fundamental categories.

(ii) The phenomenon of the exchange economy itself can be explained more easily by going behind such relationships and contemplating the behaviour of the isolated individual.

5. The arguments of Professor Robbins seem to be plausible and appealing. But they do not seem to entitle one to the conclusion that Economics is not wholly a social science or that it is an individual science.

6. The first part of the first argument of Robbins appears to be correct. It is true to say that an isolated man is also presented with the problem of alternative uses of scarce means. But it is not perhaps right to conclude from it, as Professor Robbins does, that therefore the behaviour of an isolated man and social man can be subsumed under the same fundamental categories. A social man has a mental equipment which is contributed to by his education, family environment, social environment and other social forces, institutions and influences, from which an isolated man is immune. Hence the behaviour of an isolated individual living a lonely life in the strict sense of the term, would be logically different from that of a social man. He would probably be on the level on which our ancestors were

at the time of their first abode on this planet. He would be without much rational development. He would not fully appreciate the problem of making choice, and the importance of effecting maximum economy would also probably be beyond his understanding.

7. "It is true," observed J. N. Keynes, "that some of the problems discussed by the science—those relating, for example, to the functions of capital—would arise in a more or less rudimentary form in relation to an isolated individual; and it is accordingly possible to illustrate certain elementary economic principles by reference to the conduct of Robinson Crusoe. As soon, however, as we advance beyond the threshold of the science, it becomes necessary to regard human beings, not in isolation, but as members of associated communities including others besides themselves. The most prominent characteristic of actual economic life is the relation of mutual dependence that subsists between different individuals; and political economy may be said to be essentially concerned with economic life as a special aspect of social life."

8. The concept of an isolated man itself is, moreover, fictitious and not real; for such a man does not actually exist and cannot possibly exist. And the statement that an isolated man will behave like a social

² J. N. Keynes, *Scope and Method*, pp. 88-89.

man when presented with the same alternatives of achieving an end is, therefore, based on imaginary supposition. We shall allow these points to pass for the time being. We shall like first to examine the validity of the second statement of Professor Robbins and then return to the discussion of these points. Even if these assumptions are allowed to stand, in other words, the question which arises is: Is the second argument of Professor Robbins tenable?

9. We start with the supposition that the study of an isolated man represents the actions of an average social man in a simplified economy, so that the conclusions based on this simple study can be later elaborated and applied to our complex economy. But does it entitle us to deny the social character of economic science? The economist studies the actions of an isolated man for an easy understanding of the behaviour of a social man living in a complex economy. It cannot be taken to mean that the study of an isolated individual is the chief end of Economics. Economists devote attention to the isolated man for the sake of making their main study of social man convenient and easy. If we say, as was once observed: Much harm is done to Economics by blending Politics with it in the premises. If one mixes brandy with mineral water and attributes the action of one to the other, he will provide a good illustration of the folly which people mixing Politics with Economics commit. On

the basis of this statement, we cannot say that Chemistry falls under the province of Economics. We have simply drawn upon Chemistry to make our point clear. Similarly, when an economist studies the activities of an isolated individual, he does so merely to make his point clear. His aim is to study social man and not an isolated man. It would, therefore, be wrong to infer that Economics is the study of a social man from the arguments of Robbins, even when they are safeguarded by vulnerable suppositions.

10. Let us now examine these suppositions. The isolated individual referred to by Robbins can either be a real man or a fictitious concept. He could not be a real person for it is difficult to imagine of a person who has been brought up and has lived quite independently and unaided by any human effort. The birth of a child cannot take place without a man and a woman. After the child is born, the innate love of the mother for her child would prevent her from forsaking it to the mercy of all sorts of dangers ; and even if the child is left uncared for, it would most probably die. A strictly isolated individual does not and cannot exist. We can only guess of him and his activities. He is just an imaginary concept.

11. Even if we do not question the assumption as regards the existence of such a fictitious person, we are not free from difficulties. For Professor Robbins

seems to infer that this man behaves just like a social man. This statement that were such a creature as an isolated man really to exist, he would behave just like a social man, cannot be allowed to go unchallenged. Human behaviour, it should be remembered, is the function of human nature and institutional settings. Neither of these will be identical in isolated and social economies—the first having a primitive character and the second having the advantage of a thousand years' culture and knowledge.³ Thus Robbins gives the case of an isolated man as if he exists in the real world but who in fact exists only in the mind of Robbins, and wrongly supposes that his behaviour would be like that of the social man. He then goes on to draw a wrong conclusion, a conclusion which is wrong even if the above two erroneous suppositions are allowed to stand. Robbins's isolated man is a person who lives in a simple economy, and is affected by a few forces and influences. He is another form of the Economic Man. Robbins thus appears to be making an effort to reinstate an equivalent of *Homo Oeconomicus* in all his ancient glory.

³ "The life of the individual isolated from his fellows is a life against nature, and the real nature of the individual can in consequence only be developed in society. It is only by living in society that a man can realize all that he has it in him to be, only by intercourse with his fellows, by the realization of social duties and fulfilment of social obligations that he can develop his full self."—C. E. M. Joad, *Introduction to Modern Political Theory*, p. 11.

12. Later classicists and neo-classicists have given up the weak position taken by their predecessors that natural norm is an ethical norm. But they still insist on the universality and invariability of economic laws which, in their opinion, are free from the limitations of institutional framework. Human behaviour varies in practical aspect according to the institutional setting; but there is some underlying principle behind it which is true in every type of society. This view may be taken to mean that Economics is not necessarily a social science. But this would be a wrong conclusion to draw, for a social man is quite a different creature from an isolated human being. Rational conduct is not an absolute concept. It is a relative concept and the element of relativity has reference to institutional settings. Rationality cannot be divorced from institutional settings. The rationality of the conduct of the social and isolated persons is bound to be different. The one would have the benefit of thousands of years of culture and knowledge to mould his behaviour; the other would have to start independently, almost with a clean slate. The difference in their behaviour can be ascribed to the difference in the institutional settings in the two cases. Hence the underlying principle behind human conduct also varies according to such framework.

13. Even if all that Robbins says is taken to be quite correct, it might not be worthwhile to apply all

the conclusions based on the study of an isolated individual to a social being, because these conclusions might not be very useful in a social organization bristling with many difficult practical problems. The tools of economists have to be strong and sharp so that they might be able to grasp the hard problems of today, and these a study of isolated economy cannot possibly give. We want not truth alone but significant truth. For truth is a relative concept and truth for life's sake and not for truth's sake should be our ideal.

14. *Robinson Crusoe Economy.* Some economists are very fond of referring to the Robinson Crusoe economy when they wish to indicate the economy of an isolated man; and they also base their arguments on this notion. But, as Warner Sombart rightly pointed out, a Robinson Crusoe economy is an imaginary case, and if it were true, a pathological case, since the most isolated economy conceivable that will perpetuate its race, requires the collaboration of several, at least two. Human sociability, *i.e.* some form of human society, is a necessary pre-requisite to any economy. Robinson Crusoe could only find a way to exist because he was the product of social economy. In his consciousness there were knowledge and habits, memories of a thousand-year-old culture. "It is wrong," says Sombart, "to make distinction between pure economic and social economic categories; all economic categories are social."

15. Some economists argue, Professor J. K. Mehta being one of them, that human actions are of two types : individual and social. Economics studies both these groups and cannot as such be correctly described as a social science. But it does not seem to be correct to say that "individual human actions" have no social bearing at all. Every activity of a social man has a social bearing ; it is bound to have some effect on social welfare. Even the smallest human activity has some social implication. In the course of a discussion, it was pointed out that this is not necessarily so, and it was asked : If one strikes the graphite of one's pencil against a paper for an hour, of what significance is this action to society ? Evidently this action is of utmost importance to society, for if one strikes graphite against paper, both these things will be consumed and the society would have to produce fresh supplies for further consumption. Moreover, society is not interested in one's waste of time ; for the welfare of the society requires one should work and not waste time. It was, then, pointed out that this sort of social implication cannot be said to be important. That is quite true, but the example taken above is itself not an important one.

CHAPTER X

THE SCOPE OF ECONOMIC SCIENCE

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.—*J. M. Keynes.*

1. The foregoing discussion throws light on the subject-matter and nature of Economics. This is, in a way, a description of the scope of this science. But much attention has been focussed on the question of scope of Economics since the publication of Professor Robbins's *Nature and Significance* and Mrs. Barbara Wootton's *Lament* that something may well be said specifically on this subject.

2. The scope of Economics includes the discussion of the following problems : (i) What does Economics study ? (ii) Is Economics a positive science ? (iii) Is Economics a normative science ? (iv) Is Economics an applied science ? (v) Is Economics a social science ? These problems have already been discussed in the foregoing pages.

3. It has been shown that greater differences of opinion exist among economists regarding the scope of economic science. The differences have already been explained and examined. We feel, however, that

while economists have been devoting a great deal of attention to the main and substantial issues involved in this seemingly baffling problem, they have not cared to clear up the real implications of the term 'Scope.' It would not be far from true to say that at least to some of the fresh students of this subject the confusion is worse confounded because of a fog which seems to surround the meaning of this term.

4. Economists have not cared to explain what should be included under the term 'Scope,' probably because this task is looked down as being too elementary and, therefore, unfit for the pre-occupation of great thinkers. It has also been ignored by those who have an applied and practical bias, probably because they think that it is an academic and theoretical question and is of no use on that account. It is often forgotten that every science requires correct, precise and satisfactory connotations to be given to its fundamental concepts because in their absence no reliable and lasting progress can be made. In order to be thorough in our advanced views, we must be thorough in our elementary concepts. Moreover, Economics is not the exclusive privilege of advanced thinkers only ; it also claims the attention and study of the beginners. It will, indeed, be a sad day for this science if the great thinkers cease to shed light for the benefit of their followers where darkness is likely to prevail. It is not an uncommon experience to find students of

undergraduate classes baffled when they are asked to describe the scope of Economics, for they do not really understand the meaning of this term. This ignorance continues in some cases to post-graduate classes as well. These students later become teachers of Economics and the vagueness in their mind on this and other similar points is passed on as a legacy to the coming generations. To problems like this economists may be advised to address themselves in order to help the development and understanding of Economics along right and healthy lines.

5. There is at least one economist who has seriously considered issues of this nature. He is J. N. Keynes. According to him, "in seeking to define the *scope* of any department of study, the object in view is primarily to determine the distinguishing features of the phenomena with which it deals, and the kind of knowledge that it seeks concerning these phenomena. The enquiry also involves an examination of the relations between the study in question and cognate branches of study."¹

6. That the subject-matter of Economics and its nature should necessarily be described in any attempt to discuss its scope, is a point on which most of the economists would agree. The discussion of the relation of Economics to other sciences can, however, only show how they have contributed to the growth of

¹ J. N. Keynes, *Scope and Method*, p. 2.

Economics, how Economics has helped in their development, and what is the common ground covered by both of them. But that does not seem to throw much light on the scope of the subject. This part of the suggestion of J. N. Keynes does not seem to be entirely acceptable.

7. The first problem enumerated above relates to the subject-matter of Economics, and the remaining problems to the nature of this science.

CHAPTER XI

THE PROBLEM OF ECONOMIC TERMINOLOGY

If you wish to converse with me, define your terms.—*Voltaire*.

1. Modern economists are open to the charge of neglecting formal descriptive positivism in Economics. Much confusion has been caused by the untrammelled liberty taken by some economists in matter of definition and classification. The problem of economic terminology, in particular, has been much neglected by modern economists; though their predecessors did not make this mistake. Whether one studies Mill or Cairnes,¹ Sidgewick or J. N. Keynes, one will find some fine and pointed observations made on the subject. But if one reads a modern treatise on Economics, one will rarely come across the term *terminology*. No science, it will be readily agreed, can stand on the faulty base of poor terminology and incorrect and indefinite expression. These will make the superstructure of knowledge weak, distorted and misleading. It cannot be very useful and may, at times, prove even dangerous. The door of Economics seems to be open for such a possibility to enter and grow in dimensions. Economists have thus added to their own difficulties. It can, indeed, be stated without much fear of

¹ John Elliot Cairnes (1824-1875), the last of the early classical economists.

contradiction that economists of today, more often than not, disagree in their agreement because of the use and practice of careless terminology.² Much of the laborious and lengthy discussion on the problem of the definition, scope and methodology of Economics, for instance, could be rendered unnecessary if this science is carefully equipped with satisfactory terminology and definite and fixed definitions. Indeed, the neglect has been so great that discussions of economic problems of all sorts and description have a tendency to come down to the interpretation and connotation of certain terms before a final judgment can be declared, an obvious result of the error of starting with loose and unsettled terminology. What wonder, then, that one often hears the complaint that "seas of ink have been spilt in wrangling about definitions; the average teacher of Economics thinks it necessary to drill his class at the outset into an acceptance of a long string of definitions; and in the end we are little advanced than we were before."³ It is nothing short of a misfortune of Economics that "after a century and a half of persistent research and thought of men of outstanding intellect with no other purpose than a scientific explanation of economic activity, a disentangling of the complex skein of cause and effect of the economic process—the utmost differ-

² See in this connection, my article, *Pure and Applied Economics in India*, in MYSORE ECONOMIC JOURNAL, Vol. 24, No. 11, 1938.

³ C. J. Melrose, *The Data of Economics*, pp. 1-2.

ence of opinion prevails, reaching down to the very terms in which the process shall be described."⁴ A full discussion of the problem connected with economic terminology is, in fact, long overdue. The suggestion that the time and energy devoted to the discussion of terminological problems is a waste and an idle pursuit with no utilitarian pretension, is the one which, we believe, will not be made by anybody who has realized that Economics is not merely accounting or tabulation or description of certain phenomena, and that the part played by pure Economics is not altogether barren.

2. The lack of realization of the importance and significance of a scientific fixation of terms, does not surprise one so much as the belief which seems to persist in certain quarters that the formulation of terms is the hunting ground of certain idlers, is an elementary pursuit which does not anyway require intelligence and command over the subject, or is unworthy of engaging the attention of men with intellect and genius. So deep-rooted this conviction appears to be that even Professor Thorold Rogers makes the statement that "word-splitting and definition-extending is a most agreeable occupation. It does not require *knowledge*. It is sufficient to be acute."⁵ To contradict a thinker

⁴ Paul T. Homan, *Contemporary Economic Thought*, p. 10.

⁵ Thorold Rogers, *Economic Interpretation of History*, pp.

of the authority of Professor Thorold Rogers has to be a daring, if not an ambitious, effort but we are constrained to observe that here he appears to allow his conviction take the better of his reason. His statement ignores the delicacy and responsibility involved in the task of framing scientific terms. The formulation of a term requires a clear and correct knowledge of the entire scope of the subject.⁶ It further requires the ability to grasp the repercussions of the connotation assigned to a particular term on the entire structure, make-up, presentation and the future growth of the subject. "The problem it involves," J. E. Cairnes observed about nine decades ago, "is to arrange the phenomena comprised in the particular investigation according to the relations and affinities most important with reference to the purpose in hand. In order to do this, a knowledge of such relations and affinities, and of their comparative importance in the inquiry, is plainly indispensable."⁷ The difficulty, subtlety and the responsibility of the task explain why the framing of definitions is invariably the last stage in the progress of knowledge.⁸ So important and delicate is the task of the formulation of terms that it cannot be safely entrusted to a shallow thinker. The initiative taken

⁶ See J. N. Keynes, *The Scope and Method of Political Economy*, pp. 134-5.

⁷ J. N. Cairnes, *The Logical Method of Political Economy*, pp. 1571-59.

⁸ See Whewell, *Novum Organon Renovatum*, p. 40.

by a person with insufficient competence in this regard should not be allowed to go unnoticed as it is capable of causing great confusion. It is not a work that can be left to the devices of an incapable or an inefficient workman.

3. Before we proceed further, let us make some observations on the term '*term*' itself. A term is a classificatory instrument. A person assigning a term picks up certain objects or phenomena or observations having definite and useful characteristics out of the total objects or phenomena or observations, and gives them a certain name called *term*. In other words, a term is an abbreviated designation given to a class of certain objects or phenomena or observations. The formulation of a term is preceded by a close and minute observation, collection of facts, their classification, and an anticipation of the significance and importance of the common characteristics discernible in the selected data to the later and advanced theorization and philosophization. It is similarly followed by a suitable definition of the term "Name and terms," it has been well said, "are the verbal correlates of the classes they denote, briefer than definitions, more definite than signs or symbols. They are used, however, to designate, not to define. What they denote, or connote, the definition makes more explicit."²

² Bliss, *The Organization of Knowledge*, p. 135.

4. To define the term '*term*' and to discuss its origin, growth and functions is, however, not our present purpose. Our sole object at this place is to deal with the terminological problem of Economics, to the controversial phase of which we can now proceed. The central terminological problem of Economics appears to be the following: Should an author be given an untrammelled right to make any term mean anything he chooses or should this privilege be circumscribed in some form and to some extent? In this connection, we are reminded of the interesting dialogue from a well-known book †:—

"When I use word," Humpty Dumpty said in a rather scornful tone, "it means just what I choose it to mean.....neither more nor less."

"The question is," said Alice, "whether *you* can make words mean different things."

"The question is," said Humpty Dumpty, "which is to be the master.....that's all."

5. None will probably like to contradict the sensible verdict that words are servants of men. But it will be generally conceded that words used in a science are sometimes earmarked for fulfilling certain functions, and that they cannot be diverted from these functions

† *Through the Looking Glass.*

without grave injury to the service they perform. We cannot persuade ourselves to subscribe fully to the commonplace view that it is the right and privilege of a thinker, here an economist, to devise any terminology he likes ; and so long as he sticks to that terminology from beginning to end, his conduct is above reproach. Were this liberty given to every writer in any serious sense and were it utilized by him in seriousness, it will lead to nothing short of a chaos. A student will then have to waste majority of his time in learning and remembering which term is used by which writer in which sense, and in correlating it with other term or terms used by other writers to express the same idea. It is, however, appreciated that certain latitude has to be allowed to thinkers in this connection for facilitating the expression of their thought as the language has its own limitations. But considerations such as these do indicate the necessity of discussing, from a wide and independent standpoint, the necessary attributes of a good term.

6. A term, so far as can be reasonably visualized, should have the following four attributes. Firstly, it should be descriptive and suggestive. It should suggest its implication in an automatic way. For instance, the term "Free Gifts of Nature" is superior to "Land" from this point of view. Secondly, a term should imply, as far as possible, what it implies in everyday language and common usage. This is a

very important point and its neglect by economists has created difficulties for the average man in understanding and studying deliberations of Economics. It not infrequently disheartens and disappoints even the experienced students of Economics. The tendency among theoretical economists to adopt unusual, strange and high-sounding terms where usual, familiar and simple term could serve the purpose, has been drawing Economics from oases to sandy deserts, from popularity to obscurity, from the knowable and the known to the unknowable and the unknown. It must certainly be admitted that, in some cases, a term might have been in use in a science for such a long time that it should preferably not be made to connote something else than what it already does, though it may be cut off from its common usage. The third attribute of a term, therefore, is that it should be as proximate as possible to its existing scientific meaning. Fourthly and finally, the unequivocal and unambiguous nature of the term is an indispensable necessity.

7. On the basis of the above analysis, the following rules for one's guidance can be prescribed. When it is necessary to formulate a term to signify an entirely new type of phenomenon, one should devise a new term rather than use an existing term for the purpose; and this new term should be the one which, if thus used, should not seriously molest its everyday meaning. The attempt to replace an already existing term by

another term is justified only if the latter is more suited to describe the phenomenon than the former, and only if the use of the former has not deeply percolated in the literature so that the change of its connotation is not likely to be a serious matter. But if this is not the case, it would be much better to coin a new term to describe a new economic phenomenon.

CHAPTER XII

THE PROBLEM OF ECONOMIC IDEOLOGY

The maintenance of peace and the maintenance of prosperity are very closely related. If full employment without inflation is quickly achieved and maintained forever more, the chances of parties of the extreme right or left coming to power in the western democracies is rather small.... And if the western democracies avoid the internal threats from both the extreme right and the extreme left, it is unlikely that they will find it either necessary or desirable to wage war, at least on economic grounds. I have yet to be provided with convincing evidence that Russia has extensive territorial ambitions, apart from the insecurity she naturally feels in a hostile world.—*Benjamin Higgins*.

1. We may now take up the question of ideology of Economics, a problem which seems to have received an insufficient amount of attention thus far.

2. In the opinion of some thinkers, as has already been pointed out, Economics is a science without any ideals, aims and objectives. This is, for instance, the conservative British opinion. It has been given a most emphatic expression by J. E. Cairnes in the following words: "Whatever takes the form of a plan aiming at definite practical ends—it may be a measure for the diminution of pauperism, for the reform of land tenure, for the extension of co-operative industry, for the regulation of currency; or it may assume a more ambitious shape, and aim at reorganizing society under spiritual and temporal powers, represented by a high priest of humanity and three bankers—it matters not

what the proposal be, whether wide or narrow in its scope, severely judicious or wildly imprudent—if its object be to accomplish definite practical ends, then I say it has none of the characteristics of a science and has no just claim to the same.”¹

3. This school of thought, however, seems to have been recently shorn of some of its vigour and popularity. And though Professor Robbins has tried to give it a fresh lease of life—and Professor Robbins’s originality, depth of thought, vigour of style and above all his present position among economists are high and eminent—it has to be seen how far and how long this attitude remains the representative opinion of economists in general. In the very nature of things, Economics is utilitarian. It is eminently fitted to augment social welfare in various ways and to a substantial degree. But in order that it may actually do so, it is necessary that it is vested with an inspiring and clear ideology. We have already expressed our view that Normative Economics, which is not only possible of independent existence and conception but is almost a necessity, has to be developed. To deny its existence or even the possibility of its existence, is to adopt an unrealistic and narrow attitude. Arguments in support of this view, from negative and positive sides, have been discussed in the preceding pages.

¹ J. E. Cairnes, *Logical Method of Political Economy*, p. 17.

² See Robbins, *The Nature and Significance of Economic Science*.

4. It would be pertinent to quote here an observation of an Indian economist, which runs as follows : "Economics may be aptly characterized as a derived science, that is, a science which has very little of its own, specially in the realm of first principles. Almost all its laws are derived from other primary sciences and by the utilization of these as its premises the science of Economics like the sciences of Architecture and Eugenics builds its own theories and theorems. It is really the superstructure on the borrowed material, that is Economics. And a very large part of the superstructure is relative to the time and circumstances in which it was raised. If this interpretation of the nature of the science of Economics is correct then we should have no difficulty in subscribing to the thesis that although desire for gain can be taken, as in fact it is, as the motive force of all economic activity in the present-day world and, therefore, it can be accepted rightly as an assumption of the existing science of Economics, yet if the man so chooses he can make altruism as his main guiding motive of all economic activity, and then we shall have a science of Economics with a superstructure built as now upon the eternal borrowed truths, but conditioned throughout with the new basic assumption."³ These remarks go to

³ B. G. Bhatnager, BASIC FACTORS IN INDIAN RECONSTRUCTION in *Indian Journal of Economics*, Vol. XIX, Part iv, p. 787.

show that Economics not only has an ideal, but its ideal is also amenable to a change.

5. If Economics is capable of having some end, what is it or what should it be? This question has not unfortunately been given much thought though its consideration should have come at the heels of the scope controversy. In most cases, this problem has taken a different shape, namely, the relation of Economics to Ethics. But the problem is, really speaking, much wider.

6. Professor Othmar Spann has given the concept of Universalism which can be considered to be an ideal of economic activities. Professor Spann presents Universalism as an antithesis of Individualism. As the term 'universalism' is likely to be confused with 'cosmopolitanism', it would be preferable to use the term 'social welfare' instead and it is opposed to 'individualism' which may be better called 'individual welfare.' Spann uses the term 'universalism' in the sense of 'social welfare'. It is of decisive importance, Professor Spann very aptly observes, alike in matters of theory and in those of practice, whether the economist has an individualist or a universalist conception of society. For no matter whether we are concerned with materialism *versus* characterism, free trade *versus* protection, competition *versus* co-operation, private bargaining *versus* collective bargaining, the principle

of every man for himself *versus* that of organized work for the community, self-help *versus* social reform—these and other fundamental antitheses are not political problems, nor yet philosophical problems; and the answer to be given in each case will depend in large measure whether the analytical investigation is undertaken from an individualist or universalist standpoint. According as we are individualists or universalists, our general connection of economic life will vary in one direction or the other, so will our method of enquiry, even our formulation of the main notions of our science, and finally our theoretical attitude towards differing types of economic and social endeavour⁴.

7. According to the theory of Individualism, the individual has to be given the greatest measure of importance, not the community. Society is just like a concourse of atoms, a heap of stones, in which every atom or stone remains independent, self-determined as it were, leading a separate existence; and in which the association of the parts produces no more than a superficial and purely mechanical community. In the modern age, however, the individualism of natural right was set up in opposition to the universalism of classical antiquity and the Middle Ages.⁵ But the individualistic conception of the State proved practically unworkable as well as conceptually inadequate. When

⁴ Spann, *Types of Economic Theory*, p. 62.

⁵ See Barbara Wootton, *Lament for Economics*.

men guarantee one another nothing more than security, economic injuries are sustained owing to the unsatisfactory position of the propertyless members of society, while spiritual and moral damage ensues in consequence of the backward development of community life in its various forms. Individuals compete ruthlessly with one another; the prevailing tone of mind is materialistic; the cultural and spiritual life of society lacks energy and go.

8. It was inevitable that people should in time become aware of the insufficiency of such an outlook upon society. The revival of Universalism was pre-eminently the work of the German thinkers and their philosophy and ideologies have generally been inspired by this objective. In the field of Economics, this idea was introduced by Professor Spann.⁶ Universalists contend that the mental or spiritual association between individuals exists as an independent entity; that is super-individual and primary, whereas the individual is derivative and secondary. The individual does not derive his intrinsic essence, his mental or spiritual being and nature, from himself *qua* individual; he is only able to form himself, is only able to build up his personality, when in close touch with others like himself; he can only create and sustain himself as a being endowed with mentality or spirituality when he enjoys

⁶ See Brij Narain, *Tendencies in Recent Economic Thought*, Chapter VI.

intimate and multiform communion with other beings similarly endowed. According to this view then society stands on a higher plane than the individuals, inasmuch as it is the creative spiritual interlacement of individuals, the form under which individual life can alone come to full fruition.⁷

9. The reasoning of Professor Spann is very plausible. In the modern age, the society has come to be regarded as superior to the individual; and it might as well have the sanction of Economics. The aim of Economics has to be social rather than purely individualistic. The age when economists advanced maximum productivity as the unqualified goal of Economics has sunk into the yawning gulf of time. That, or its near approximation, has already been achieved in a technological sense; and where it has not been achieved, it is capable of achievement by making appropriate efforts. But that has not made the society as a whole happy and prosperous. Maximum production *unaccompanied* with just distribution does not, in an ultimate sense, maximise human welfare. The aim of modern Economics, therefore, should be the maximization of social welfare.

10. But a question has still to be asked: What is the society that has been contemplated all through this discussion? Is it a single nation, or the world as

⁷ *Ibid.*

a whole? It may be said that the world as a whole cannot be called one society, for it is not united to the degree of being called one. It, however, stands to reason that in every society there is generally found some form of social stratification and separation; so that it does not seriously matter if this separation is confined to a nation or the world at large. But independent of it, the vital question stands: Should Economics be social in the cosmopolitan sense or in the national sense?

11. The system of classicism suffers from what List called "boundless cosmopolitanism"; and though it has left its impress on the British thought of today to some extent, its influence seems to be rather small on theoretical economics. There was a time when economists used to speak of international division of labour and international economic co-operation with a certain amount of enthusiasm. But the first Great War was a shock to some and a disappointment to others; and World War II has been a repetition of the same experience. In the post-war world, an area of peace has emerged and seems to be spreading; and war as a mode of settling international differences has come to be generally regarded as being ineffective and unsatisfactory. But it continues to be a world of suspicions and tensions, a world of power blocs and power politics. Sometimes these suspicions and tensions get the better of human tolerance and human spirit of co-exis-

tence; and then it seems that international co-operation and fraternity exist merely in name, that perhaps each power bloc is sharpening its claws behind the facade of its peaceful intentions and is preparing the instruments of aggression, that strong nations have not lost the habit of exploiting and opposing weaker nations, and that the real merits of an international issue are accepted only in so far as they suit the purpose of one power bloc or the other and are otherwise rejected. In such a system, the internationalism, if practised by any single nation, is put to utmost strain, and reduced to political absurdity, and exposes the nation to grave risks and dangers. Cosmopolitanism, in fact, assumes a permanent and enduring state of peace. It did so in the system of thought of Adam Smith. It was so with J. B. Say, with Sismondi, and with others in the line. But a perpetual state of peace is not the existing condition to the modern world. Moreover, advanced nations are not wholly and earnestly prepared to sacrifice economic advantages of their position. List remarked about a century ago, "In order to allow freedom of trade to operate naturally, the less advanced nations must first be raised by artificial measures to that stage of cultivation to which the English nation has been artificially cultivated?"⁸ Without anxiety for equality among nations, internationalism becomes economically untenable.

⁸ List, *National System of Political Economy*, p. 107.

12. As an ultimate proposition, therefore, there is no gainsaying the fact that internationalism in its full-fledged and real form, with proper safeguards to weaker and undeveloped nations, would promote the maximum economic welfare of the world as a whole. Nationalism, which is inherently a growing feeling, implies a perpetual state of rivalry in economic and non-economic spheres and of tensions, suspicions, divisions and clashes; and it reduces the area in which the principle of territorial division of labour is fully implemented. The only course for the modern world anxious to realise the maximum achievements of which human beings are capable in different spheres by mutual co-operation and goodwill, is to ensure the continued existence of internationalism in outlook, thought and action by all practical ways.

13. But that is, an ultimate proposition. Today unfortunately we do not find the countries of the world fully prepared for unreserved economic co-operation and honest international brotherhood and equality, as has already been discussed above.

And it has to be considered as to what should be the duty of a country in this setting. It would, indeed, be evident foolishness to follow the principle of open-door and *laissez faire* policy in a world full of trade walls, exchange controls, national consciousness and selfish viewpoints. In the existing circumstances, one is constrained to observe that wisdom seems to consist

in a healthy economic nationalism, anxious for international economic co-operation wherever practicable.

14. Patriotism and national welfare are always worthy ideals for Economics to strive for and achieve. What is good for a country, is the good, the truth. What is harmful for it, is bad, the falsehood. Was it not a great philosopher who declared that "Truth is that form of error which enables a particular species to prevail. There is no absolute truth"? But this nationalism in Economics, inevitable for social welfare of the people belonging to a nation and also because of aggressive nationalism of the different countries of the world in modern times, must be tolerant, sober and enlightened, always ready to reciprocate *quid pro quo* on international scale and anxious to promote the area of co-existence, mutual help and international well-being in economic spheres.